



H.B. Fuller

20
23

ANNUAL

REPORT



We executed exceptionally well this year and I am particularly proud of our team for driving double-digit adjusted EBITDA growth in a challenging environment.

Celeste Mastin, President and Chief Executive Officer,
H.B. Fuller Company

Dear Shareholders,

As the largest pureplay adhesives company in the world, we make everyday products cleaner, faster, greener, lighter, thinner, smarter, smaller, softer, stronger, and safer. The world applies our functional solutions every day to enhance the quality, safety and performance of household items; increase the energy efficiency of homes and commercial buildings; improve the performance of automobiles, airplanes, electronics and alternative energy generation; help patients heal; and enable a more sustainable future.

2023 was characterized by outstanding execution. Throughout the year, we focused on delivering for our customers and shareholders while taking actions that are foundational to our future growth and margin expansion. Amidst unprecedented customer destocking activity, we took decisive actions to manage raw material and pricing responsibly, and took proactive steps to increase the efficiency of our manufacturing footprint as demand softened — while investing in a highly synergistic collection of acquisitions. As a result of the team’s proactive and decisive actions, we achieved new record high EBITDA margins for the business.

All the while, we remained focused on connecting what matters by staying on top of evolving market trends and innovating with speed to develop customized solutions that help our customers successfully innovate in their markets, from Full-Care® 900, which enabled a first-of-its-kind biodegradable feminine napkin (see page 6) to EV Protect 4006, a new patented adhesive technology that greatly improves the safety of electric vehicles (see page 6), and beyond. These groundbreaking new product introductions are just a few examples of the many highly innovative, sustainable products being developed each and every day in close collaboration with customers across our global portfolio.

Our innovative solutions are highly customized for our customers, and we have successfully transformed our portfolio into one that is concentrated in the highly specified areas of our market segments. As such, we have begun to take our portfolio management approach to the next level by proactively driving capital allocation to the highest margin, highest growth market segments. During the year, we successfully executed on this strategy by acquiring six businesses across several geographies and global business units, and accelerating the realization of many of our top growth opportunities.

In addition, we worked to extend terms with vendors and reduce inventories across the globe. These actions drove significant cash flow and enabled us to drive our net-debt-to-adjusted-EBITDA ratio down to 2.9x, even with significant investment in new acquisitions.

In 2024, we are focused on enhancing our portfolio mix in favor of our top growth category, capitalizing on the tremendous growth and margin expansion opportunities for inimitably performing and sustainable solutions, and continuing to demonstrate strong cash flow generation and improved profitability, while investing in programs and partnerships that attract and retain top talent and benefit the communities in which we live and work.

Above all, we will continue to deliver the value you expect from us. With our unique competitive advantages and best-in-class innovation, we will continue to make the world better and more sustainable while delivering for our customers, shareholders, team members and other stakeholders.

Celeste Mastin

President and Chief Executive Officer
H.B. Fuller Company



Corporate Champion

>40%

representation by women

Designated a “Corporate Champion” by the Women’s Forum of New York for having more than 40% women on H.B. Fuller’s Board of Directors

Workplace Awards

Ranked by *Forbes* as One of America’s Best Midsize Employers

Featured in *Newsweek*’s 2023 rankings of America’s Greatest Workplaces for Remote Work and America’s Greatest Workplaces for Diversity

Named for the second time to the *Star Tribune*’s list of Minnesota’s Top 200 Workplaces

Recognized for the third time as one of the 50 Best Companies to Work for in Portugal by *Exame Magazine*

Named among the Best Companies for Young Professionals in Costa Rica by Employers for Youth (EFY)

Adjusted EBITDA Margin

16.5%

Expanded 240 basis points year-on-year to a new fiscal year record high of 16.5%

Adjusted EBITDA

\$581M

Achieved record adjusted EBITDA of \$581 million, up 10% year-on-year

Operating Cash Flow

\$378M

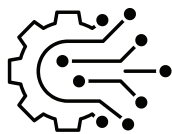
Increased 48% to \$378 million year-on-year, achieving a new fiscal year record high on improved profitability and working capital reduction

Net Debt Leverage

2.9x

Strong debt paydown and EBITDA growth reduced net debt leverage below 3x for the first time since 2017, to 2.9x adjusted EBITDA

Operating Segments



Engineering Adhesives

Accelerating innovation and elevating performance in the electronics, clean energy, transportation, and durable goods markets



Hygiene, Health and Consumable Adhesives

Enabling greater sustainability of consumer product goods and delivering medical products that optimize patient outcomes

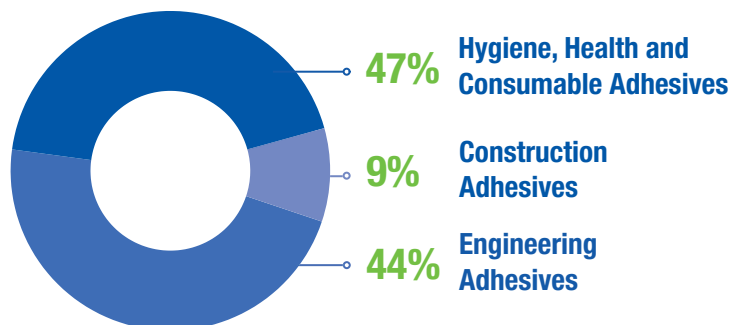


Construction Adhesives

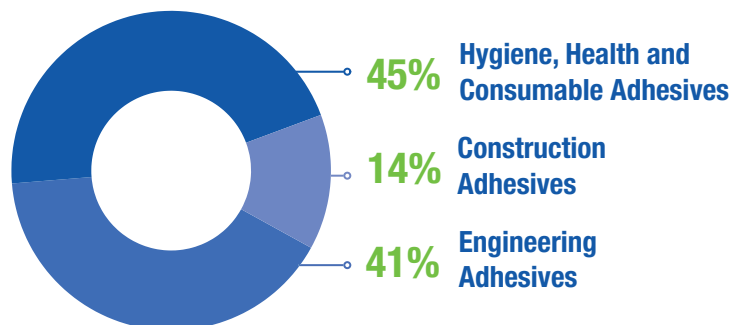
Enhancing the energy efficiency and aesthetics of buildings and industrial infrastructure

Global Business Units Results — Fiscal 2023

Adjusted EBITDA



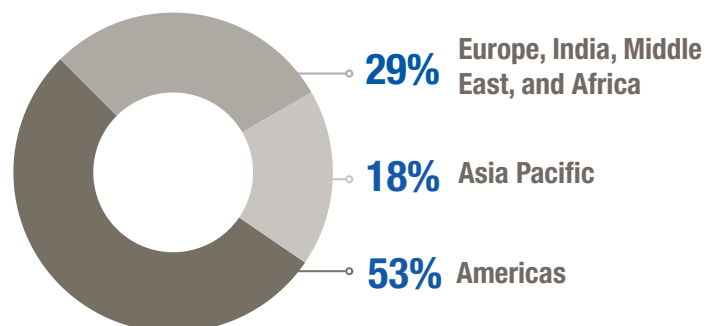
Revenue



Regional Results — Fiscal 2023



Revenue





2023 Acquisition Highlights

Six companies acquired across multiple geographies and market segments of focus

\$216 million in capital invested for our 2023 collection of acquisitions

\$15 million in EBITDA acquired, converting to \$60 million in EBITDA by 2025, driven by significant synergy realization

Fueling Growth Through Proactive Portfolio Management

Over the past 15 years, H.B. Fuller has **successfully transformed its portfolio** to focus on higher margin, specialized solutions. Today, the vast majority of our revenues come from highly specified applications in each of our market segments.

We have compelling growth opportunities in front of us as we continue to transform H.B. Fuller and execute to achieve our new goal of delivering an adjusted EBITDA margin greater than 20% within the next three to five years. In fact, all of our investment decisions — both organic investment capital and M&A — are rooted in transforming H.B. Fuller into a higher growth, higher margin, higher return on invested capital business.

Key to this portfolio management strategy are targeted acquisitions, which fuel growth, expand our network and market share, bring in new talent and technology, provide a framework from which to optimize production efficiency, and leverage our buying scale.

To better enable investors to follow our progress, we have divided our 30-plus market segments into two categories:

- **Growth** segments, where we will invest disproportionate capital and expect to achieve more than 25% adjusted EBITDA margin and outsized growth
- **Leverage** segments, which are expected to achieve more than 15% adjusted EBITDA margin

With this new structure, we are sharpening our focus on ensuring investment activities are tied to our highest value opportunities to profitably grow the business over the near- and long-term.

We are executing our strategic plan to improve our business, our portfolio, and our customer experience, augmented by our position as the acquirer of choice in the adhesives industry. ”

Celeste Mastin, President and Chief Executive Officer,
H.B. Fuller Company

Driving Innovations That Improve the World Enabling our Customers' Sustainability Goals

The H.B. Fuller team has repeatedly demonstrated our ability to capture market share through innovation and specialization. In fact, 23% of H.B. Fuller's 2023 revenue comes from new products introduced in the past five years, and more than half the products in our SKU base are uniquely tailored to meet a specific customer's needs.

Working in close collaboration with our customers, we leverage our broad technology platform, market segment expertise, global reach, and entrepreneurial spirit to bring new, highly specified solutions to market that enable our customers' success and enhance the sustainability of their end products. Today, nearly 60% of new product development projects are focused on increasing the sustainability of our customers' end products.

Innovation Spotlight

Sustainability in Disposable Hygiene

Through collaborative partnerships with customers like [Niine Private Limited](#), a leading manufacturer of feminine care products in India, H.B. Fuller is leading the industry in creating game-changing sustainable solutions that reduce waste and improve the environment.

In 2023, Niine unveiled one of the industry's first biodegradable sanitary products. Our new bio-based adhesive technology, [Full-Care® 900 Series](#), generates up to 100 percent lower carbon emissions compared with standard petrochemical-based adhesives, and according to the cradle to gate concept, which is a type of life cycle assessment (LCA) that measures the environmental impact of a product from resource extraction to the factory gate. This product was critical to the new product design — allowing Niine to fulfill the biodegradation criteria of India's ISO 17088 standard and produce a solution that is not only affordable and sustainable, but also enables discreet and convenient menstrual management.



Thermal Management in ePower and Storage

H.B. Fuller was the proud winner of the [2023 Adhesive and Sealant Council \(ASC\) Innovation Award](#) for our new product EV Protect 4006, a lightweight encapsulant for lithium-ion batteries used in the production of electric vehicles (EVs) and battery storage banks. EV Protect is a groundbreaking innovation that, when exposed to a thermal event, significantly reduces, or delays, thermal propagation. The semi-structural properties of EV Protect also provide noise, vibration, and harshness mitigation benefits to the battery system by unitizing the battery module and absorbing external environmental impacts. This new patent-protected innovation greatly improves the safety of EV battery systems and will enable us to capture more market share and continue to significantly grow our EV business.

Operational Execution

Across the organization, we proactively managed changing price and raw material dynamics in the face of unprecedented customer destocking activity throughout the year to position H.B. Fuller for continued future profit growth, margin expansion and strong cash flow.

Optimizing our Operations

H.B. Fuller undertook meaningful restructuring initiatives throughout the year across our global manufacturing and supply chain operations to accelerate profitable growth, expedite the integration of recently acquired businesses, enhance customer service and drive overall operational improvements.

In 2023, restructuring benefits positively impacted adjusted EBITDA by approximately \$10 million. When completed in fiscal year 2026, these actions are expected to result in ongoing annualized cost savings of \$40 to \$45 million (pre-tax), and we remain on track to deliver these benefits.

As demand conditions normalize, we expect the continued strength of our innovation pipeline, coupled with the operating leverage created through our restructuring actions, to drive significant growth and margin expansion opportunities for our business in 2024 and beyond.

Celeste Mastin, President and Chief Executive Officer,
H.B. Fuller Company



2023 Operations Highlights

Utilized our scale, nurtured relationships with suppliers, and leveraged our industry-leading reformulation agility to help customers take advantage of lower raw material costs and achieve lower prices while improving our margins — achieving an adjusted gross margin increase of 350 basis points in 2023

Embarked on a digital supply chain transformation with the introduction of new inventory management dashboards on a global scale, contributing to a significant reduction in inventories during the year and a three-day reduction of Days on Hand (DOH)

Significantly improved Days Payable Outstanding (DPO) and Days Sales Outstanding (DSO) through revised customer and supplier payment terms, providing more cash for growth by lowering net working capital more than \$50 million

2023 Financial Summary

Selected Income Statement and Balance Sheet Data

Dollar amounts in U.S. millions, except per share amounts and percentage data.

REGULATION G RECONCILIATION

	2019	2020	2021	2022	2023
Revenue	\$2,897.0	\$2,790.3	\$3,278.0	\$3,749.2	\$3,510.9
Net income attributable to H.B. Fuller	\$130.8	\$123.7	\$161.4	\$180.3	\$144.9
Adjustments:					
Acquisition project costs	2.2	(0.2)	5.6	10.8	16.9
Organizational realignment	7.6	11.4	12.7	6.4	29.9
Restructuring and integration	0.8	7.4	4.2	2.5	-
Project One	4.1	4.3	9.4	9.9	9.8
Other	8.1	2.3	(4.7)	11.4	14.9
Adjusted net income attributable to H.B. Fuller¹	\$153.7	\$148.9	\$188.6	221.3	216.4
Add:					
Interest expense	103.3	84.6	78.2	91.5	131.9
Interest income	(12.2)	(11.4)	(9.5)	(7.8)	(3.9)
Income taxes	47.5	46.5	67.6	78.6	78.0
Depreciation and amortization expense	140.1	138.2	142.0	146.4	158.4
Adjusted EBITDA¹	\$432.3	\$406.8	\$466.9	\$530.0	\$580.8
Adjusted EBITDA margin¹	14.9%	14.6%	14.2%	14.1%	16.5%
Diluted shares	52.0	52.5	54.3	55.3	56.0
Adjusted diluted income per common share H.B. Fuller (EPS)¹	\$2.96	\$2.84	\$3.47	\$4.00	\$3.87
	2019	2020	2021	2022	2023
Gross profit	\$806.9	\$756.6	\$845.3	\$963.7	\$1,008.9
Gross profit margin	27.9%	27.1%	25.8%	25.7%	28.7%
Adjustments:					
Acquisition project costs	-	0.1	0.2	1.1	3.1
Organizational realignment	0.4	0.2	3.9	3.2	18.1
Restructuring and integration	6.3	3.7	2.1	0.7	-
Other	0.2	0.4	1.8	1.8	0.8
Adjusted gross profit²	\$813.8	\$761.0	\$853.3	\$970.5	\$1,030.9
Adjusted gross profit margin²	28.1%	27.3%	26.0%	25.9%	29.4%
	2019	2020	2021	2022	2023
Total debt	\$1,979.1	\$1,773.9	\$1,616.5	\$1,765.1	\$1,838.4
Less: cash and cash equivalents	112.2	100.5	61.8	79.9	179.5
Net debt³	\$1,866.9	\$1,673.4	\$1,554.7	\$1,685.2	\$1,658.9
Adjusted EBITDA¹	\$432.3	\$406.8	\$466.9	\$530.0	\$580.8
Net debt leverage³	4.3	4.1	3.3	3.2	2.9

Please see page 9 for additional financial highlights and footnotes.

2023 Financial Summary (Continued)

Selected Balance Sheet Data

	2019	2020	2021	2022	2023
Total assets	\$3,985.7	\$4,036.7	\$4,274.5	\$4,463.6	\$4,723.6
Cash and equivalents	\$112.2	\$100.5	\$61.8	\$79.9	\$179.5
Total debt	\$1,979.1	\$1,773.9	\$1,616.5	\$1,765.1	\$1,838.4
Total H.B. Fuller stockholder equity	\$1,222.3	\$1,381.3	\$1,596.8	\$1,610.2	\$1,755.2

REGULATION G DISCLOSURE AND FOOTNOTES

REGULATION G: The information presented in this report regarding adjusted gross profit, adjusted gross profit margin, adjusted net income attributable to H.B. Fuller, adjusted diluted income per common share (also referred to as EPS), adjusted earnings before interest, taxes, and depreciation and amortization (EBITDA), adjusted EBITDA margin, net debt, and net debt leverage does not conform to generally accepted accounting principles (GAAP) and should not be construed as an alternative to the reported results determined in accordance with GAAP. Management has included the non-GAAP information to assist in understanding the operating performance of the company and its operating segments as well as the comparability of results. The non-GAAP information provided may not be consistent with the methodologies used by other companies. The table shown on page 8 of this report provides a reconciliation of non-GAAP information to the most directly comparable measure determined in accordance with U.S. GAAP.

¹Adjusted net income attributable to H.B. Fuller, adjusted diluted income per common share attributable to H.B. Fuller, adjusted EBITDA, and adjusted EBITDA margin are non-GAAP financial measures. Adjusted net income attributable to H.B. Fuller is defined as net income before the specific adjustments shown in the table on page 8. Adjusted diluted income per common share is defined as adjusted net income attributable to H.B. Fuller divided by the number of diluted common shares. Adjusted EBITDA is defined as net income before interest, income taxes, depreciation, amortization, and the specific adjustments shown in the table on page 8. Adjusted EBITDA margin is defined as adjusted EBITDA divided by net revenue. The table shown on page 8 provides a reconciliation of adjusted net income attributable to H.B. Fuller, adjusted diluted income per common share attributable to H.B. Fuller, adjusted EBITDA, and adjusted EBITDA margin to net income attributable to H.B. Fuller, the most directly comparable financial measure determined and reported in accordance with U.S. GAAP.

²Adjusted gross profit and adjusted gross profit margin are non-GAAP financial measures. Adjusted gross profit and adjusted gross profit margin are defined as gross profit and gross profit margin excluding the specific adjustments shown in the table on page 8. The table provides a reconciliation of adjusted gross profit and adjusted gross profit margin to gross profit and gross profit margin, the most directly comparable financial measures determined and reported in accordance with U.S. GAAP.

³Net debt is defined as total debt less cash and cash equivalents, and net debt leverage is defined as net debt divided by adjusted EBITDA. The table shown on page 8 provides a reconciliation of net debt and net debt leverage to total debt, the most directly comparable financial measure determined and reported in accordance with U.S. GAAP.

All product names appearing in the text of this Annual Report are the property of H.B. Fuller Company or one of its affiliated entities. All other trademarks used herein are the property of their respective owners.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 2, 2023

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 001-09225

H.B. FULLER COMPANY

(Exact name of registrant as specified in its charter)

Minnesota

(State or other jurisdiction of incorporation or organization)

41-0268370

(I.R.S. Employer Identification No.)

1200 Willow Lake Boulevard, St. Paul, Minnesota

(Address of principal executive offices)

55110-5101

(Zip Code)

Registrant's telephone number, including area code: **(651) 236-5900**

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$1.00	FUL	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: none

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" or "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to § 240.10D-1(b).

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the Common Stock, par value \$1.00 per share, held by non-affiliates of the registrant as of June 3, 2023 was approximately \$3,600,724,541 (based on the closing price of such stock as quoted on the New York Stock Exchange of \$67.10 on such date).

The number of shares outstanding of the Registrant's Common Stock, par value \$1.00 per share, was 54,207,966 as of January 17, 2024.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates information by reference to portions of the registrant's Proxy Statement for the Annual Meeting of Shareholders to be held on April 11, 2024.

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H.B. FULLER COMPANY

2023 Annual Report on Form 10-K

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PART I

Item 1. Business

H.B. Fuller Company was founded in 1887 and incorporated as a Minnesota corporation in 1915. Our stock is traded on the New York Stock Exchange (“NYSE”) under the ticker symbol FUL. As used herein, “H.B. Fuller,” “we,” “us,” “our,” “management” or “company” includes H.B. Fuller and its subsidiaries unless otherwise indicated. Where we refer to 2023, 2022 and 2021 herein, the reference is to our fiscal years ended December 2, 2023, December 3, 2022, and November 27, 2021, respectively.

We are a leading worldwide formulator, manufacturer and marketer of adhesives, sealants and other specialty chemical products. Sales operations span 35 countries in North America, Europe, Latin America, Asia Pacific, India, the Middle East and Africa. Industrial adhesives represent our core product offering, which help improve the performance of our customers’ products or improve their manufacturing processes. Customers use our adhesives products in manufacturing common consumer and industrial goods, including food and beverage containers, disposable diapers, medical products, windows, doors, appliances, sportswear, footwear, multi-wall bags, water filtration products, insulation, textiles, automobiles, recreational vehicles, buses, trucks and trailers, marine products, solar energy systems, electronics and products for the aerospace and defense industries. In addition, we have established a variety of product offerings for residential, commercial and industrial construction markets, including sealing and waterproofing solutions for airports, roads, highways, bridges and utilities; pressure-sensitive adhesives, tapes and sealants for the commercial roofing industry; and level-setting products, ready-to-use grouts, mortars, and pressure sensitive adhesives that enable contractors and do-it-yourself consumers to quickly install flooring and tiling applications more reliably and efficiently. We also provide our customers with technical support and unique solutions designed to address their specific needs.

We have three reportable segments: Hygiene, Health and Consumable Adhesives, Engineering Adhesives and Construction Adhesives. See Management’s Discussion and Analysis of Financial Condition and Results of Operations (the “MD&A”) in Item 7 of this Annual Report for a description of our segment operating results.

Non-U.S. Operations

The principal markets, products and methods of distribution outside the United States vary with each of our regional operations generally maintaining integrated business units that contain dedicated supplier networks, manufacturing, logistics and sales organizations. The vast majority of the products sold within any region are produced within the region, and the respective regions do not import significant amounts of product from other regions. As of December 2, 2023, we had sales offices and manufacturing plants in 25 countries outside the United States and satellite sales offices in another 9 countries.

We have a Code of Business Conduct and detailed Core Policies that we apply across all of our operations around the world. These policies represent a set of common values that apply to all employees and all of our business dealings. We have adopted policies and processes, and conduct employee training, intended to ensure compliance with various economic sanctions and export controls, including the regulations of the U.S. Treasury Department’s Office of Foreign Assets Control (“OFAC”). We do not conduct any business in the following countries that are subject to U.S. economic sanctions: Cuba, Iran, North Korea, Syria and the Crimea region of the Ukraine.

Competition

Many of our markets are highly competitive. However, we compete effectively due to the quality and breadth of our adhesives, sealants and specialty chemical portfolio and the experience and expertise of our commercial organizations. Within the adhesives and other specialty chemical markets, we believe few suppliers have comparable global reach and corresponding ability to deliver quality and consistency to multinational customers. Our competition is made up generally of two types of companies: (1) similar multinational suppliers and (2) regional or specialty suppliers that typically compete in only one region or within a narrow geographic area within a region. The multinational competitors typically maintain a broad product offering and range of technology, while regional or specialty companies tend to have limited or more focused product ranges and technology.

Principal competitive factors in the sale of adhesives and other specialty chemicals are product performance, supply assurance, technical service, quality, price and customer service.

Customers

We have cultivated strong, integrated relationships with a diverse set of customers worldwide. Our customers are among the technology and market leaders in consumer goods, construction and industrial markets. We pride ourselves on long-term, collaborative customer relationships and a diverse portfolio of customers in which no single customer accounted for more than 10 percent of consolidated net revenue.

Our leading customers include manufacturers of food and beverages, hygiene products, clothing, major appliances, electronics, automobiles, aerospace and defense products, solar energy systems, filters, construction materials, wood flooring, furniture, cabinetry, windows, doors, tissue and towel, corrugation, tube winding, packaging, and tapes and labels.

Our products are delivered directly to customers primarily from our manufacturing and distribution facilities, with additional deliveries made through distributors and retailers.

Human Capital Resources and Management

Employees and Labor Relations

As of December 2, 2023, we have approximately 7,200 employees in 45 countries, including approximately 2,600 employees based in the U.S. Approximately 450 U.S. employees are subject to collective bargaining agreements with various unions. Approximately 750 employees in foreign countries are subject to collective bargaining agreements. Overall, we consider our employee relations to be good.

Health and Safety

The health and safety of our employees and anyone who enters our workplace is important, and we believe that nothing we do is worth getting hurt for. We have a strong environmental, health and safety program that focuses on implementing policies and training programs, as well as performing self-audits to enhance workplace safety.

Competitive Pay and Benefits

Our primary compensation strategy is “Pay for Performance”, which supports a culture of accountability and performance. Our compensation guiding principles are to structure compensation that is simple, aligned and balanced. We believe that these principles are strongly aligned with the strategic priorities of our business and our objective to deliver value for our shareholders.

We are committed to fair pay and strive to be externally competitive while ensuring internal equity across our organization. We conduct global pay equity assessments and compensation reviews, and when necessary, we take action to address areas of concern.

Quality, affordable health care is the foundation of the comprehensive benefits package we offer our employees. It is one of the tools we use to recruit and retain, and it is seen as the preferred benefit by most employees. Employees in the United States earning below \$54,000 each year have 100% of their individual medical premiums covered by the Company in the form of a medical premium reimbursement.

Results-Driven, Collaborative Culture

Our purpose is connecting what matters for all stakeholders and we go about this by winning the right way through our core values. We expect employees to act with integrity and hold each other accountable for our actions. We value our global team's diverse perspectives, backgrounds and experiences. We make daily, conscious choices to excel, by always bringing passion and creativity to our work, and by striving for innovation ethically and fairly. Our worldwide network of culture champions supports our focus on being At Our Best. Our communication on goals, targets and performance is frequent and transparent. We continue to leverage flexible work options available to employees who don't need our facilities to perform their jobs and this continues to enhance connections across the company, as well as with customers and external partners. This supports our desire to be first and fastest in finding solutions for customers and improving our overall effectiveness. Finally, we continue to take great pride in our focus on giving back to the communities in which we operate through the giving efforts of the H.B. Fuller Foundation and the thousands of employee volunteer hours each year.

Inclusion and Diversity

As a global company, we currently have employees present in 45 countries around the world. We place strong value on collaboration and we believe that working together leads to better outcomes for our customers. This extends to the way we treat each other as team members. We strive to create an environment where innovative ideas can flourish by demonstrating respect for each other and valuing the diverse opinions, background and viewpoints of employees. We believe that diversity in our teams leads to new ideas, helps us solve problems and allows us to better connect with our global customer base.

We are taking specific actions to foster inclusion and diversity into our culture. Learning resources have been implemented to support greater awareness and understanding of the behaviors expected from employees. We have introduced employee networking groups, an expanded and enhanced mentoring program and focused development programs with the goal of creating meaningful opportunities for employees. We have adjusted our recruiting practices to ensure we are getting the right level of exposure to diverse candidates.

Talent Development

We recognize how important it is for our colleagues to develop and progress in their careers. We provide a variety of resources to help our colleagues grow in their current roles and build new skills, including online development resources focused on specific business imperatives with access to hundreds of online courses in our learning management system. We have implemented an innovative delivery method for leadership training to drive experiential learning and to increase access to leaders around the world. Individual development planning is a part of our annual goal setting process and people managers are expected to have regular discussions with employees to measure progress and make needed adjustments. We focus on getting employees into roles with greater responsibility and opportunities for advancement that are also aligned with their career path to facilitate development and maximize potential. Finally, we provide ambitious employees with short-term opportunities in unique assignments in addition to their current roles. These assignments support the employees' development while also supporting company initiatives that are required to be resourced with talented employees.

Raw Materials

We use several principal raw materials in our manufacturing processes, including tackifying resins, polymers, synthetic rubbers, vinyl acetate monomer and plasticizers. We generally avoid sole source supplier arrangements for raw materials.

The majority of our raw materials are petroleum/natural gas-based derivatives, therefore the cost of crude oil and natural gas can impact the cost of our raw materials. Under normal conditions, raw materials are available on the open market. Prices and availability are subject to supply and demand market mechanisms. Raw material costs, including costs for unique or specialty chemicals used in the manufacturing of our products, are primarily determined by the balance of supply against the aggregate demand from the adhesives industry and other industries that use the same raw material streams.

Patents, Trademarks and Licenses

Much of the technology we use in our products and manufacturing processes is available in the public domain. For technology not available in the public domain, we rely on trade secrets and patents when appropriate to protect our competitive position. We also license some patented technology from other sources. Our business is not materially dependent upon licenses or similar rights or on any single patent or group of related patents.

We enter into agreements with many employees to protect rights to technology and intellectual property. Confidentiality commitments also are routinely obtained from customers, suppliers and others to safeguard proprietary information.

We own numerous trademarks and service marks in various countries. Trademarks, such as H.B. Fuller[®], Swift[®], Advantra[®], Clarity[®], Earthic[™], Sesame[®], TEC[®], Foster[®], Rakoll[®], Rapidex[®], Full-Care[®], ThermoNex[®], Silaprene[®], Eternabond[®], Cilbond[®], HydroArmor[®], Ködispace[®], Weld Mount[®] and TONSAN[®] are important in marketing products. Many of our trademarks and service marks are registered. U.S. trademark registrations are for a term of ten years and are renewable every ten years as long as the trademarks are used in the regular course of trade.

Research and Development

Our investment in research and development creates new and innovative adhesive technology platforms, enhances product performance, ensures a competitive cost structure and leverages available raw materials. New product development is a key research and development outcome, providing higher-value solutions to existing customers or meeting new customers' needs. Projects are developed in local laboratories in each region, where we understand our customer base the best. Platform developments are coordinated globally through our network of laboratories.

Through designing and developing new polymers and new formulations, we expect to continue to grow in our current markets. We also develop new applications for existing products and technologies, and improve manufacturing processes to enhance productivity and product quality. Research and development efforts are closely aligned to customer needs. We foster open innovation, seek supplier-driven new technology and use relationships with academic and other institutions to enhance our capabilities.

As climate change and other sustainability concerns become more prevalent, governmental and non-governmental organizations, customers and investors are increasingly focusing on these issues. We continue to monitor our markets to ensure we are developing the adhesives and sealants to support our customers' responses to changing consumer demand, new product designs and upcoming regulatory and sustainability efforts. We invest significantly in innovation, research and expertise, which are crucial for the continuous extraction of value from our business strategy. This also facilitates the creation of new high-performance solutions that enable customers to improve their products and processes to better achieve their sustainability programs.

Regulatory Compliance

We comply with applicable federal, state, local and foreign laws and regulations relating to environmental protection and workers' safety, including those required by the U.S. Environmental Protection Agency (the "EPA") and the European Union's ("EU") Registration, Evaluation, Authorization and Restriction of Chemicals ("REACH") regulation. This includes regular review of and upgrades to environmental, health and safety policies, practices and procedures as well as improved production methods to minimize our facilities' outgoing waste, based on evolving societal standards and increased environmental understanding. Expenditures to comply with environmental regulations over the next two years are estimated to be approximately \$21.4 million, including approximately \$0.9 million of capital expenditures. See additional disclosure under Item 3. Legal Proceedings.

Various legislation, regulations and international accords pertaining to climate change have been implemented or are being considered for implementation, particularly as they relate to the reduction of greenhouse gas emissions, such as the EU's Corporate Sustainability Reporting Directive ("CSRD"), California's Climate Corporate Data Accountability Act and Climate Related Financial Risk Act, and similar regulations under consideration by the Securities and Exchange Commission ("SEC"). These laws may directly impact the Company, however we have not determined the extent of potential disclosures or other reporting requirements. We continue to monitor the development and implementation of such legislation and regulations. We also continue to regularly report our sustainability efforts and metrics under the Global Reporting Initiative ("GRI") framework and report our goals and progress in our annual Sustainability Report.

The Foreign Corrupt Practices Act (the “FCPA”) prohibits bribery of government officials to benefit business interests. We operate and sell our products in countries that are rated as high-risk for corruption, which creates the risk of unauthorized conduct by our employees, customs brokers, distributors or other third party intermediaries that could be in violation of the FCPA or similar local regulations. We comply with the FCPA’s requirements to make and keep accurate books and records that accurately and fairly reflect our transactions and to devise and maintain an adequate system of internal accounting controls.

We are also subject to and comply with increasingly complex privacy and data protection laws and regulations in the United States and other jurisdictions. This includes the EU’s General Data Protection Regulation (“GDPR”), which enforces rules relating to the protection of processing and movement of personal data. The interpretation and enforcement of such regulations are continuously evolving and there may be uncertainty with respect to how to comply with them. Noncompliance with GDPR and other data protection laws could result in damage to our reputation and payment of monetary penalties.

Seasonality

Our operating segments have historically had lower net revenue in winter months, which is primarily our first fiscal quarter, mainly due to international holidays and the seasonal decline in construction and consumer spending activities.

Information About Our Executive Officers

The following table shows the name, age and business experience for the past five years of the executive officers as of January 16, 2024. Unless otherwise noted, the positions described are positions with the company or its subsidiaries.

<u>Name</u>	<u>Age</u>	<u>Positions</u>	<u>Period Served</u>
Celeste B. Mastin.....	55	President and Chief Executive Officer Executive Vice President and Chief Operating Officer Chief Executive Officer, PetroChoice Lubrication Solutions (leading lubricant distributor, providing solutions across the industrial, commercial and passenger vehicle customer segments)	December 2022 – Present March - December 2022 2018 - 2022
Zhiwei Cai	61	Executive Vice President, Engineering Adhesives Senior Vice President, Engineering Adhesives	August 2019 - Present February 2016 - August 2019
Heather A. Campe	50	Senior Vice President, International Growth Senior Vice President, Global Hygiene, Health and Consumable Adhesives Senior Vice President, Americas Adhesives	December 2021 - Present August 2019 - November 2021 October 2016 - August 2019
John J. Corkrean	58	Executive Vice President and Chief Financial Officer	May 2016 - Present
James J. East	59	Executive Vice President, Hygiene, Health and Consumable Adhesives Senior Vice President, Hygiene, Health and Consumable Adhesives Vice President, Engineering Adhesives Americas and Global Director Automotive	December 2022 - Present October 2021 - December 2022 April 2018 - October 2021
Traci L. Jensen.....	57	Executive Vice President and Chief Administrative Officer Vice President, Global Business Process Improvement Senior Vice President, Global Construction Products	December 2022 - Present December 2019 - December 2022 July 2016 - December 2019
M. Shahbaz Malik	56	Senior Vice President, Construction Adhesives Vice President and Business Leader, North America Distribution, Masonite International Corporation (global residential doors business)	December 2019 - Present 2018 - 2019
Gregory O. Ogunsanya....	49	Senior Vice President, General Counsel and Corporate Secretary Vice President, Assistant General Counsel, Securities and Governance, Stanley Black & Decker Inc. Vice President Legal, Stanley Industrial, a division of Stanley Black & Decker, Inc. (the world's largest tool company) Vice President and Deputy General Counsel, Safety and Productivity Solutions, Honeywell International, Inc. Vice President and General Counsel, Industrial Safety, Honeywell International, Inc. (advanced technology company that manufactures aerospace and automotive products; residential, commercial, and industrial control systems; specialty chemicals and plastics; and engineered materials)	October 2023 - Present June 2022 - September 2023 October 2020 - June 2022 November 2019 - October 2020 October 2018 - November 2019
Nathaniel D. Weaver	48	Senior Vice President, Human Resources Vice President, Human Resources Director, Human Resources	December 2022 - Present March 2020 - December 2022 2017 - March 2020

The Board of Directors elects the executive officers annually.

Available Information

For more information about us, visit our website at: www.hbfuller.com.

We file annual, quarterly and current reports, proxy statements and other information with the SEC via EDGAR. Our SEC filings are available free of charge to the public on the SEC website at www.sec.gov and on our website as soon as reasonably practicable after they have been filed with or furnished to the SEC.

Item 1A. Risk Factors

As a global manufacturer of adhesives, sealants and other specialty chemical products, we operate in a business environment that is subject to various risks and uncertainties. Below are the most significant factors that could adversely affect our business, financial condition and results of operations.

Strategic and Operational Risks

Increases in prices and declines in the availability of raw materials have adversely affected, and could continue to erode, our profit margins, and could negatively impact our operating results.

In 2023, raw material costs made up approximately 75 percent of our cost of sales. Based on 2023 financial results, a hypothetical one percent change in our raw material costs would have resulted in a change in net income of approximately \$13.3 million or \$0.24 per diluted share. Accordingly, changes in the cost of raw materials, due to scarcity, supplier disruptions, inflation and for other reasons, can significantly impact our earnings. Raw materials needed to manufacture products are obtained from a number of suppliers and many of the raw materials are petroleum and natural gas based derivatives. Under normal market conditions, these raw materials are generally available on the open market from a variety of producers. While alternate supplies of most key raw materials are available, supplier production outages may lead to strained supply-demand situations for certain raw materials. The substitution of key raw materials requires us to identify new supply sources, reformulate and re-test and may require seeking re-approval from our customers using those products. From time to time, the prices and availability of these raw materials may fluctuate, which could impair our ability to procure necessary materials, or increase the cost of manufacturing products. If the prices of raw materials increase in a short period of time, we may be unable to pass these increases on to our customers in a timely manner and could experience reductions to our profit margins.

We are at risk of cyber-attacks or other security breaches that could compromise sensitive business information, undermine our ability to operate effectively and expose us to liability, which could cause our business and reputation to suffer.

Increasingly, companies are subject to a wide variety of attacks on their networks on an ongoing basis. In addition to traditional computer “hackers,” malicious code (such as viruses and worms), phishing attempts, ransomware, employee theft or misuse, and denial of service attacks, sophisticated nation-state and nation-state supported actors engage in intrusions and attacks (including advanced persistent threat intrusions) and add to the risks to internal networks, cloud deployed enterprise and customer-facing environments and the information they store and process. Despite significant efforts to create security barriers to such threats, it is virtually impossible for us to entirely mitigate these risks. We, and our third-party software and service providers, have experienced and will continue to experience security threats and attacks from a variety of sources.

As part of our business, we store our data, including intellectual property, and certain data about our employees, customers and vendors in our information technology systems. Our security measures may be breached as a result of third-party action, including intentional misconduct by computer hackers, employee error, malfeasance or otherwise. Third parties may attempt to fraudulently induce employees or customers into disclosing sensitive information such as usernames, passwords, or other information to gain access to our customers' data or our data, including our intellectual property and other confidential business information, or our information technology systems. In addition, given their size and complexity, our information systems could be vulnerable to service interruptions or to security breaches from inadvertent or intentional actions by our employees, third-party vendors and/or business partners, or from cyber-attacks by malicious third parties attempting to gain unauthorized access to our products, systems or confidential information.

We are subject to increasingly complex and evolving laws, regulations and customer-imposed controls, that govern privacy and cybersecurity. These laws and regulations have been adopted by multiple agencies at the federal and state level, as well as in foreign jurisdictions, and the regimes have not been harmonized. Our failure to comply with these regulatory regimes may result in significant liabilities or penalties.

If a third party gained unauthorized access to our data, including any data regarding our employees, customers or vendors, the security breach could expose us to risks. Such unauthorized access and a failure to effectively recover from breaches could compromise confidential information, disrupt our business, harm our reputation, result in the loss of customer confidence, business and assets (including trade secrets and other intellectual property), result in regulatory proceedings and legal claims, and have a negative impact on our financial results.

Our business and operations have been, and may in the future, be adversely affected by epidemics, pandemics, outbreaks of disease and other adverse public health developments.

Epidemics, pandemics, outbreaks of novel diseases and other adverse public health developments in countries and states where we operate may arise at any time. Such developments, including the COVID-19 pandemic, have had, and in the future may have, an adverse effect on our business, financial condition and results of operations. These effects include a potentially negative impact on the availability of our key personnel, labor shortages and increased turnover, temporary closures of our facilities or facilities of our business partners, customers, suppliers, third-party service providers or other vendors, and interruption of domestic and global supply chains, distribution channels and liquidity and capital or financial markets. In particular, restrictions on or disruptions of transportation, port closures or increased border controls or closures, or other impacts on domestic and global supply chains or distribution channels, could increase our costs for raw materials and commodity costs, increase demand for raw materials and commodities from competing purchasers, limit our ability to meet customer demand or otherwise have a material adverse effect on our business, financial condition and results of operations or cash flows. Precautionary measures that we may take in the future intended to limit the impact of any epidemic, pandemic, disease outbreak or other public health development, may result in additional costs. In addition, such epidemics, pandemics, disease outbreaks or other public health developments may adversely affect economies and financial markets throughout the world, such as the effect that COVID-19 has had on world economies and financial markets, which may affect our ability to obtain additional financing for our businesses and demand for our products and services. The extent to which major public health issues impact our business and our financial results in the future will depend on future developments, which are highly uncertain and cannot be predicted. As a result, it is not possible to predict the overall future impact of major public health issues on our business, liquidity, capital resources and financial results.

We experience substantial competition in each of the operating segments and geographic areas in which we operate.

Our wide variety of products are sold in numerous markets, each of which is highly competitive. Our competitive position in markets is, in part, subject to external factors. For example, supply and demand for certain of our products is driven by end-use markets and worldwide capacities which, in turn, impact demand for and pricing of our products. Many of our direct competitors are part of large multinational companies and may have more resources than we do. Any increase in competition may result in lost market share or reduced prices, which could result in reduced profit margins. This may impair the ability to grow or even to maintain current levels of revenues and earnings. While we have an extensive customer base, loss of certain top customers could adversely affect our financial condition and results of operations until such business is replaced, and no assurances can be made that we would be able to regain or replace any lost customers.

Failure to develop and/or acquire new products and protect our intellectual property could negatively impact our future performance and growth.

Ongoing innovation and product development are important factors in our competitiveness, as is acquisition of new technologies. Failure to create and/or acquire new products and generate new ideas could negatively impact our ability to grow and deliver strong financial results. We may face difficulties marketing products produced using new technologies including, but not limited to, sustainable adhesives, which may adversely impact our sales and financial results. Failure of the products to work as predicted could lead to liability and damage to our reputation.

We continually apply for and obtain U.S. and foreign patents to protect the results of our research for use in our operations and licensing. We are party to a number of patent licenses and other technology agreements. We rely on patents, confidentiality agreements and internal security measures to protect our intellectual property. Failure to protect this intellectual property could negatively affect our future performance and growth.

Our operations may present health and safety risks.

Notwithstanding our emphasis on the safety of our employees and contractors and the precautions we take related to health and safety, we may be unable to avoid safety incidents relating to our operations that result in injuries or deaths. Certain safety incidents may result in legal or regulatory action that could result in increased expenses or reputational damage. We maintain workers' compensation insurance to address the risk of incurring material liabilities for injuries or deaths, but there can be no assurance that the insurance coverage will be adequate or will continue to be available on terms acceptable to us, or at all, which could result in material liabilities to us for any injuries or deaths. Changes to federal, state and local employee health and safety regulations, and legislative, regulatory or societal responses to safety incidents may result in heightened regulations or public scrutiny that may increase our compliance costs or result in reputational damage.

A failure in our information technology systems could negatively impact our business.

We rely on information technology to record and process transactions, manage our business and maintain the financial accuracy of our records. Our computer systems are subject to damage or interruption from various sources, including power outages, computer and telecommunications failures, computer viruses, security breaches, vandalism, catastrophic events and human error. Interruptions of our computer systems could disrupt our business, for example by leading to plant downtime and/or power outages and could result in the loss of business and cause us to incur additional expense.

We are in the process of implementing a global Enterprise Resource Planning ("ERP") system, including upgrading to SAP S/4HANA® which is anticipated to occur at the beginning of fiscal 2025, that we refer to as Project ONE, which will upgrade and standardize our information system. Implementation of Project ONE began in our North America adhesives business in 2014 and, through 2023, we completed implementation of this system in various parts of our business including Latin America (except Brazil), Australia and various other businesses in North America and Europe, India, Middle East and Africa (EIMEA). During 2024 and beyond, we will continue implementation in North America; Europe, India, the Middle East and Africa ("EIMEA"); Brazil and Asia Pacific.

Any delays or other failure to achieve our implementation goals may adversely impact our financial results. In addition, the failure to either deliver the application on time or anticipate the necessary readiness and training needs could lead to business disruption and loss of business. Failure or abandonment of any part of the ERP system could result in a write-off of part or all of the costs that have been capitalized on the project.

Risks associated with acquisitions could have an adverse effect on us and the inability to execute organizational restructuring may affect our results.

As part of our growth strategy, we have made, and will likely continue to make, acquisitions of complementary businesses or products. The ability to grow through acquisitions depends upon our ability to identify, negotiate, complete and integrate suitable acquisitions. If we fail to successfully integrate acquisitions into our existing business, our results of operations and our cash flows could be adversely affected. Our acquisition strategy also involves other risks and uncertainties, including distraction of management from current operations, greater than expected liabilities and expenses, inadequate return on capital, unidentified issues not discovered in our investigations and evaluations of those strategies and acquisitions, and difficulties implementing and maintaining consistent standards, controls, procedures, policies and systems. Future acquisitions could result in additional debt and other liabilities, and increased interest expense, restructuring charges and amortization expense related to intangible assets.

Our growth strategy depends in part on our ability to further penetrate markets outside the United States, where there is the potential for significant economic and political disruptions. Our operations in these markets may be subject to greater risks than those faced by our operations in the United States, including political and economic instability, project delay or abandonment due to unanticipated government actions, inadequate investment in infrastructure, undeveloped property rights and legal systems, unfamiliar regulatory environments, relationships with local partners, language and cultural differences and increased difficulty recruiting, training and retaining qualified employees.

In addition, our profitability is dependent on our ability to drive sustainable productivity improvements such as cost savings through organizational restructuring. Delays or unexpected costs may prevent us from realizing the full operational and financial benefits of such restructuring initiatives and may potentially disrupt our operations.

Macroeconomic Risks

Uncertainties in foreign economic, political, regulatory and social conditions and fluctuations in foreign currency may adversely affect our results.

Approximately 56 percent, or \$2.0 billion, of our net revenue was generated outside the United States in 2023. International operations could be adversely affected by changes in economic, political, regulatory, and social conditions, especially in Brazil, Russia, China, the Middle East, including Turkey and Egypt, and other developing or emerging markets where we do business. An economic downturn in the businesses or geographic areas in which we sell our products could reduce demand for these products and result in a decrease in sales volume that could have a negative impact on our results of operations. Product demand often depends on end-use markets. Economic conditions that reduce consumer confidence or discretionary spending may reduce product demand. Challenging economic conditions may also impair the ability of our customers to pay for products they have purchased, and as a result, our reserves for doubtful accounts and write-offs of accounts receivable may increase. In addition, trade protection measures, anti-bribery and anti-corruption regulations, restrictions on repatriation of earnings and cash, currency controls implemented by foreign governments, differing intellectual property rights and changes in legal and regulatory requirements that restrict the sales of products or increase costs could adversely affect our results of operations.

Fluctuations and volatility in exchange rates between the U.S. dollar and other currencies could potentially result in increases or decreases in net revenue, cost of raw materials and earnings and may adversely affect the value of our assets outside the United States. In 2023, the change in foreign currencies negatively impacted our net revenue by approximately \$88.5 million. In 2023, we spent approximately \$1.9 billion for raw materials worldwide of which approximately \$1.0 billion was purchased outside the United States. Based on 2023 financial results, a hypothetical one percent change in our cost of sales due to foreign currency rate changes would have resulted in a change in net income of approximately \$9.4 million or \$0.17 per diluted share. Although we utilize risk management tools, including hedging, as appropriate, to mitigate market fluctuations in foreign currencies, any changes in strategy in regard to risk management tools can also affect revenue, expenses and results of operations and there can be no assurance that such measures will result in cost savings or that all market fluctuation exposure will be eliminated.

Distressed financial markets may result in dramatic deflation of financial asset valuations and high interest rates may disrupt the availability of capital.

Adverse equity market conditions and volatility in the credit markets could have a negative impact on the value of our pension trust assets, our future estimated pension liabilities and other postretirement benefit plans. In addition, we could be required to provide increased pension plan funding. As a result, our financial results could be negatively impacted.

In a rising interest rate environment, more costly debt and reduced access to capital markets may affect our ability to invest in strategic growth initiatives such as acquisitions. In addition, the reduced credit availability could limit our customers' ability to invest in their businesses, refinance maturing debt obligations, or meet their ongoing working capital needs. If these customers do not have sufficient access to the financial markets, demand for our products may decline.

The military conflicts between Russia and Ukraine and Israel and Hamas, and the global response to these events, could adversely impact our revenues, gross margins and financial results.

The U.S. government and other nations have imposed significant restrictions on most companies' ability to do business in Russia as a result of the military conflict between Russia and Ukraine. Increases in energy demand and supply disruptions caused by the Russia and Ukraine conflict have resulted in significantly higher energy prices, particularly in Europe. Further, in October 2023, a military conflict commenced between Israel and Hamas. It is not possible to predict the broader or longer-term consequences of these conflicts, which could include further sanctions, embargoes, regional instability, energy shortages, geopolitical shifts and adverse effects on macroeconomic conditions, security conditions, currency exchange rates and financial markets. Such geopolitical instability and uncertainty could have a negative impact on our ability to sell to, ship products to, collect payments from, and support customers in certain regions based on trade restrictions, embargoes and export control law restrictions, and logistics restrictions including closures of air space, and could increase the costs, risks and adverse impacts from these new challenges. We may also be the subject of increased cyber-attacks. While the countries involved in these conflicts do not constitute a material portion of our business, a significant escalation or expansion of economic disruption or the conflicts' current scope could have a material adverse effect on our results of operations.

Catastrophic events could disrupt our operations or the operations of our suppliers or customers, having a negative impact on our financial results.

Unexpected events, including global pandemics, natural disasters and severe weather events, fires or explosions at our facilities or those of our suppliers, acts of war or terrorism, supply disruptions or breaches of security of our information technology systems could increase the cost of doing business or otherwise harm our operations, our customers and our suppliers. Such events could reduce demand for our products or make it difficult or impossible for us to receive raw materials from suppliers and deliver products to our customers.

Legal and Regulatory Risks

The impact of changing laws or regulations or the manner of interpretation or enforcement of existing laws or regulations could adversely impact our financial performance and restrict our ability to operate our business or execute our strategies.

New laws or regulations, or changes in existing laws or regulations or the manner of their interpretation or enforcement, could increase our cost of doing business and restrict our ability to operate our business or execute our strategies. In addition, compliance with laws and regulations is complicated by our substantial global footprint, which will require significant and additional resources to ensure compliance with applicable laws and regulations in the various countries where we conduct business.

Our global operations expose us to trade and economic sanctions and other restrictions imposed by the U.S., the EU and other governments and organizations. The U.S. Departments of Justice, Commerce, State, Homeland Security, and Treasury and other federal agencies and authorities have a broad range of civil and criminal penalties they may seek to impose against corporations and individuals for violations of economic sanctions laws, export control laws, the FCPA and other federal statutes and regulations, including those established by the OFAC. Under these laws and regulations, as well as other anti-corruption laws, anti-money-laundering laws, export control laws, customs laws, sanctions laws and other laws governing our operations, various government agencies may require export licenses, may seek to impose modifications to business practices, including cessation of business activities in sanctioned countries or with sanctioned persons or entities and modifications to compliance programs, including import restrictions, which may increase compliance costs, and may subject us to fines, penalties and other sanctions. A violation of these laws, regulations, policies or procedures could adversely impact our business, results of operations and financial condition.

Although we have implemented policies and procedures in these areas, we cannot assure that our policies and procedures are sufficient or that directors, officers, employees, representatives, manufacturers, suppliers and agents have not engaged and will not engage in conduct in violation of such policies and procedures.

Costs and expenses resulting from compliance with environmental laws and regulations may negatively impact our operations and financial results.

We are subject to numerous environmental laws and regulations that impose various environmental controls on us or otherwise relate to environmental protection, the sale and export of certain chemicals or hazardous materials, and various health and safety matters. The costs of complying with these laws and regulations can be significant and may increase as applicable requirements and their enforcement become more stringent and new rules are implemented. Adverse developments and/or periodic settlements could negatively impact our results of operations and cash flows. See Item 3. Legal Proceedings for a discussion of current environmental matters.

Climate change, or legal, regulatory or market measures to address climate change, may materially adversely affect our financial condition and business operations.

Climate change resulting from increased concentrations of carbon dioxide and other greenhouse gases in the atmosphere could present risks to our future operations from natural disasters and extreme weather conditions, such as hurricanes, tornadoes, earthquakes, wildfires or flooding. Such extreme weather conditions could pose physical risks to our facilities and disrupt operation of our supply chain and may increase operational costs. The impacts of climate change on global water resources may result in water scarcity, which could in the future impact our ability to access sufficient quantities of water in certain locations and result in increased costs. Concern over climate change continues to result in new legal or regulatory requirements designed to mitigate the effects of climate change on the environment, such as the EU's CSRD, California's Climate Corporate Data Accountability Act and Climate Related Financial Risk Act, and similar regulations under consideration by the SEC. We are experiencing increased compliance burdens and costs to meet the regulatory obligations and these regulatory obligations may adversely affect raw material sourcing, manufacturing operations and the distribution of our products.

Our business exposes us to potential product liability, warranty, and tort claims, and recalls, which may negatively impact our operations, financial results, and reputation.

The development, manufacture and sale of adhesives, sealants, and other specialty chemical products by us, including products produced for the medical device, automotive, food and beverage, aerospace and defense, construction, and hygiene products end markets, involves a risk of exposure to product liability, warranty, and tort claims, product recalls, product seizures and related adverse publicity. A product liability, warranty, or tort claim or judgment against us could also result in substantial and unexpected expenditures, affect customer confidence in our products, and divert management's attention from other responsibilities. Although we maintain product liability insurance, there can be no assurance that the level of coverage is adequate, that coverage will apply, or that we will be able to continue to maintain our existing insurance or obtain comparable insurance at a reasonable cost, if at all. We also have contracting policies and controls in place to limit our exposure to third party claims, though we might not always be able to limit our exposure to those claims.

We have lawsuits and claims against us with uncertain outcomes.

Our operations from time to time are parties to or targets of lawsuits, claims, investigations and proceedings, including product liability, personal injury, asbestos, patent and intellectual property, commercial, contract, environmental, antitrust, health and safety, and employment matters, which are handled and defended in the ordinary course of business. The results of any future litigation or settlement of such lawsuits and claims are inherently unpredictable, but such outcomes could be adverse and material in amount. See Item 3. Legal Proceedings for a discussion of current litigation.

The Company's effective tax rate could be volatile and materially change as a result of the adoption of new tax legislation and other factors.

A change in tax laws is one of many factors that impact the Company's effective tax rate. The U.S. Congress and other government agencies in jurisdictions where the Company does business have had an extended focus on issues related to the taxation of multinational corporations. As a result, the tax laws in the U.S. and other countries in which the Company does business could change, and any such changes could adversely impact our effective tax rate, financial condition and results of operations.

The Organization for Economic Co-operation and Development ("OECD"), an international association of 38 countries including the United States, finalized and adopted numerous changes to long-standing tax principles. Certain of these changes become effective for the Company in 2025 and will likely increase tax uncertainty and may adversely affect our provision for income taxes.

Additional income tax expense or exposure to additional income tax liabilities could have a negative impact on our financial results.

We are subject to income tax laws and regulations in the United States and various foreign jurisdictions. Significant judgment is required in evaluating and estimating our provision and accruals for these taxes. Our income tax liabilities are dependent upon the location of earnings among these different jurisdictions. Our income tax provision and income tax liabilities could be adversely affected by the jurisdictional mix of earnings, changes in valuation of deferred tax assets and liabilities and changes in tax laws and regulations. In the ordinary course of our business, we are also subject to continuous examinations of our income tax returns by tax authorities. Although we believe our tax estimates are reasonable, the final results of any tax examination or related litigation could be materially different from our related historical income tax provisions and accruals. Adverse developments in an audit, examination or litigation related to previously filed tax returns, or in the relevant jurisdiction's tax laws, regulations, administrative practices, principles and interpretations could have a material effect on our results of operations and cash flows in the period or periods for which that development occurs, as well as for prior and subsequent periods. The decision to repatriate foreign earnings could result in higher withholding taxes.

Financial Risks

We may be required to record impairment charges on our goodwill or long-lived assets.

Weak demand may cause underutilization of our manufacturing capacity or elimination of product lines; contract terminations or customer shutdowns may force sale or abandonment of facilities and equipment; or other events associated with weak economic conditions or specific product or customer events may require us to record an impairment on tangible assets, such as facilities and equipment, as well as intangible assets, such as intellectual property or goodwill, which would have a negative impact on our financial results.

Our current indebtedness could have a negative impact on our liquidity or restrict our activities.

Our current indebtedness contains various covenants that limit our ability to engage in specified types of transactions. Our overall leverage and the terms of our financing arrangements could:

- limit our ability to obtain additional financing in the future for working capital, capital expenditures and acquisitions, even when necessary to maintain adequate liquidity, particularly if any ratings assigned to our debt securities by rating organizations were revised downward;
- make it more difficult to satisfy our obligations under the terms of our indebtedness;
- limit our ability to refinance our indebtedness on terms acceptable to us or at all;
- limit our flexibility to plan for and adjust to changing business and market conditions in the industries in which we operate and increase our vulnerability to general adverse economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow to make interest and principal payments on our debt, thereby limiting the availability of our cash flow to fund future acquisitions, working capital, business activities and other general corporate requirements;
- subject us to higher levels of indebtedness than our competitors, which may cause a competitive disadvantage and may reduce our flexibility in responding to increased competition; and
- expose us to interest rate risk since a portion of our debt obligations are at variable rates. This could negatively impact our earnings, cash flows and our ability to grow. For example, a one percentage point increase in the average interest rate on our floating rate debt at December 2, 2023 would increase future interest expense by approximately \$5.3 million per year.

In addition, the restrictive covenants require us to maintain specified financial ratios and satisfy other financial condition tests. Our ability to meet those financial ratios and tests will depend on our ongoing financial and operating performance, which, in turn, will be subject to economic conditions and to financial, market and competitive factors, many of which are beyond our control. A breach of any of these covenants could result in a default under the instruments governing our indebtedness.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Principal executive offices and central research facilities are located in the St. Paul, Minnesota area. These facilities are company-owned. Manufacturing operations are carried out at 36 plants located throughout the United States and at 45 plants located in 25 other countries. In addition, numerous sales and service offices are located throughout the world. We believe that the properties owned or leased are suitable and adequate for our business. Operating capacity varies by product line, but additional production capacity is available for most product lines by increasing the number of shifts worked. The following is a list of our manufacturing plants as of December 2, 2023 (each of the listed properties are owned by us, unless otherwise specified):

Segment		Segment	
Hygiene, Health and Consumable Adhesives		Engineering Adhesives	
Argentina	Buenos Aires ²	France	Surbourg
Australia	Dandenong South	Germany	Wunstorf
Australia	Sydney ¹	Germany	Nienburg
Brazil	Sorocaba ²	Germany	Langelsheim ¹
Brazil	Curitiba ¹	Germany	Pirmasens
Brazil	Guarulhos	Italy	Pianezze
Chile	Santiago	People's Republic of China	Beijing
Colombia	Rionegro	People's Republic of China	Chongqing ¹
Egypt	6th of October City - 3rd Industrial Zone ²	People's Republic of China	Nanjing - ShanXu Road
Egypt	6th of October City - CPC Industrial Park	People's Republic of China	Nanjing - Xinjinhu Road ¹
Finland	Valkeakoski ¹	People's Republic of China	Suzhou
France	Blois	People's Republic of China	Yantai
Germany	Luneburg	Portugal	Mindelo
Germany	Frankfurt - Kilianstädter ¹	United Kingdom	Preston ¹
Germany	Frankfurt - Vibeler ¹	United States	California - Irvine ¹
Greece	Lamia	United States	California - Wilmington ¹
India	Pune	United States	Connecticut - Enfield ¹
Indonesia	Mojokerto	United States	Georgia - Norcross ¹
Kenya	Nairobi ¹	United States	Georgia - Ball Ground ¹
Malaysia	Selangor	United States	Illinois - Frankfort - Corsair
New Zealand	Auckland ¹	United States	Illinois - Frankfort - West Drive
People's Republic of China	Guangzhou	United States	Indiana - South Bend
Philippines	Manila	United States	Massachusetts - Peabody ¹
Sweden	Landskrona	United States	Michigan - Grand Rapids
United Kingdom	Dukinfield	United States	Minnesota - Fridley
United Kingdom	Milton Keynes ¹	United States	Minnesota - Maple Grove ¹
United States	Georgia - Covington	United States	New Hampshire - Raymond ¹
United States	California - Roseville	United States	Ohio - Bellevue ¹
United States	Georgia - Tucker		
United States	Illinois - Seneca	Construction Adhesives	
United States	Kentucky - Paducah	Belgium	Antwerp
United States	Ohio - Blue Ash	Canada	Ontario - Toronto ¹
United States	Minnesota - Vadnais Heights	Mexico	Coahuila ¹
United States	New York - Syracuse ¹	United Arab Emirates	Ras Al-Khaimah ¹
United States	North Carolina - Charlotte	United Kingdom	Kirby in Ashfield
United States	North Carolina - Hudson	United Kingdom	Mansfield ¹
United States	South Carolina - Simpsonville	United Kingdom	Staffordshire
United States	Texas - Mesquite	United Kingdom	Tibshelf ¹
United States	Washington - Vancouver	United States	California - La Mirada
		United States	Florida - Gainesville
		United States	Georgia - Dalton
		United States	Illinois - Aurora
		United States	Michigan - Michigan Center
		United States	New Jersey - Edison
		United States	Ohio - Chagrin Falls
		United States	Texas - Houston
		United States	Texas - Mansfield

1 Leased Property

2 Idle Property

Item 3. Legal Proceedings

Environmental Matters

From time to time, we become aware of compliance matters relating to, or receive notices from, federal, state or local entities regarding possible or alleged violations of environmental, health or safety laws and regulations. Also, from time to time, we are identified as a potentially responsible party ("PRP") under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") and/or similar state laws that impose liability for costs relating to the clean up of contamination resulting from past spills, disposal or other release of hazardous substances. We are also subject to similar laws in some of the countries where current and former facilities are located. Our environmental, health and safety department monitors compliance with applicable laws on a global basis.

Currently, we are involved in various environmental investigations, clean up activities and administrative proceedings and lawsuits. In particular, we are currently deemed a PRP in conjunction with numerous other parties, in a number of government enforcement actions associated with landfills and/or hazardous waste sites. As a PRP, we may be required to pay a share of the costs of investigation and clean up of these sites.

We are also engaged in environmental remediation and monitoring efforts at a number of current and former operating facilities. To the extent we can reasonably estimate the amount of our probable liabilities for environmental matters, we establish a financial provision. It is reasonably possible that we may have additional liabilities related to these known environmental matters. However, the full extent of our future liability for environmental matters is difficult to predict because of uncertainty as to the cost of investigation and clean up of the sites, our responsibility for such hazardous substances and the number of and financial condition of other potentially responsible parties.

While uncertainties exist with respect to the amounts and timing of the ultimate environmental liabilities, based on currently available information, we have concluded that these matters, individually or in the aggregate, will not have a material adverse effect on our results of operations, financial condition or cash flow. However, adverse developments and/or periodic settlements could negatively impact the results of operations or cash flows in one or more future periods.

Other Legal Proceedings

From time to time and in the ordinary course of business, we are a party to, or a target of, lawsuits, claims, investigations and proceedings, including product liability, personal injury, asbestos, contract, patent and intellectual property, environmental, health and safety, tax and employment matters. While we are unable to predict the outcome of these matters, we have concluded, based upon currently available information, that the ultimate resolution of any pending matter, individually or in the aggregate, will not have a material adverse effect on our results of operations, financial condition or cash flow. However, adverse developments and/or periodic settlements could negatively impact the results of operations or cash flows in one or more future periods.

For additional information regarding environmental matters and other legal proceedings, see Note 14 to the Consolidated Financial Statements.

Item 4. Mine Safety Disclosures

Not applicable.

Part II.

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded on the New York Stock Exchange under the symbol FUL. As of January 17, 2024, there were 1,268 common shareholders of record for our common stock.

Issuer Purchases of Equity Securities

Information on our purchases of equity securities during the fourth quarter of 2023 is as follows:

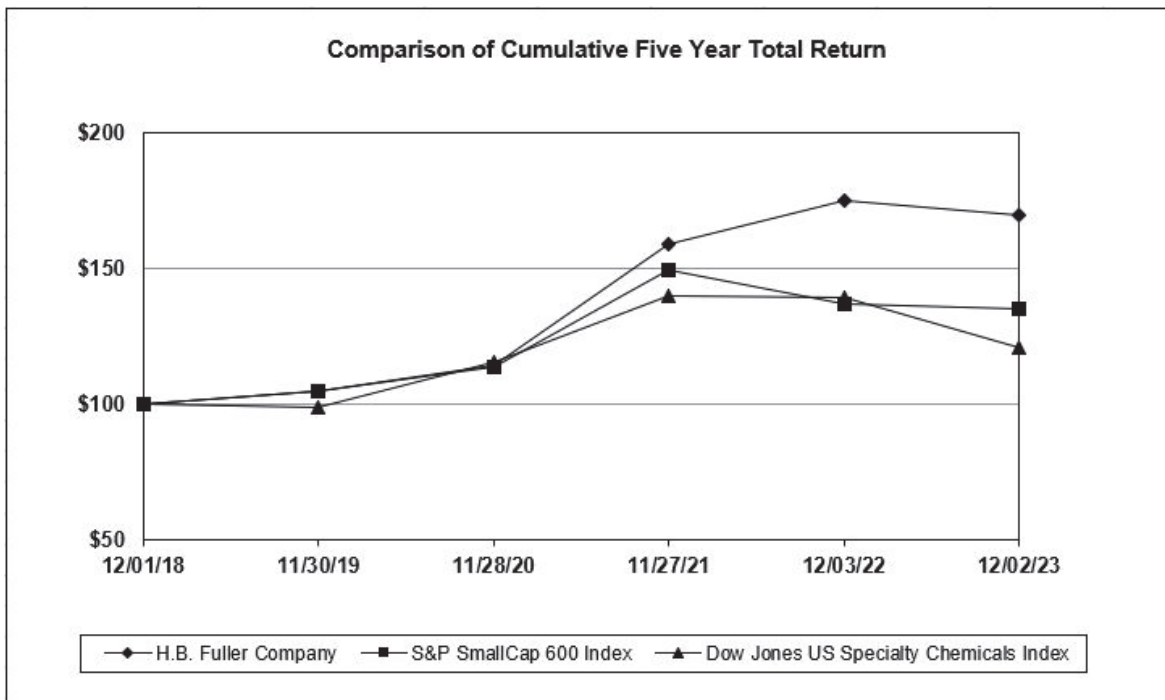
<u>Period</u>	<u>Total Number of Shares Purchased¹</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of a Publicly Announced Plan or Program</u>	<u>Approximate Dollar Value of Shares that may yet be Purchased Under the Plan or Program (thousands)</u>
September 3, 2023 - October 7, 2023	16	\$ 68.61	-	\$ 300,000
October 8, 2023 - November 4, 2023	70	\$ 65.93	-	\$ 300,000
November 5, 2023 - December 2, 2023 ..	8	\$ 75.41	-	\$ 300,000

¹ The total number of shares purchased are shares withheld to satisfy the employees' withholding taxes upon vesting of restricted stock. Repurchases of common stock are made to support our stock-based employee compensation plans and for other corporate purposes. Upon vesting of restricted stock awarded to employees, shares are withheld to cover the employees' minimum withholding taxes.

On April 7, 2022, the Board of Directors authorized a new share repurchase program of up to \$300.0 million of our outstanding common shares for a period of up to five years. Under the program, we are authorized to repurchase shares for cash on the open market, from time to time, in privately negotiated transactions or block transactions, or through an accelerated repurchase agreement. The timing of such repurchases is dependent on price, market conditions and applicable regulatory requirements. Upon repurchase of the shares, we reduce our common stock for the par value of the shares with the excess being applied against additional paid in capital. This authorization replaces the April 6, 2017 authorization to repurchase shares.

Total Shareholder Return Graph

The line graph below compares the cumulative total shareholder return on our common stock for the last five fiscal years with cumulative total return on the S&P Small Cap 600 Index and Dow Jones U.S. Specialty Chemicals Index. This graph assumes a \$100 investment in each of H.B. Fuller, the S&P Small Cap 600 Index and the Dow Jones U.S. Specialty Chemicals Index at the close of trading on December 1, 2018, and also assumes the reinvestment of all dividends.



Item 6. Selected Financial Data

Reserved.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

H.B. Fuller Company is a global formulator, manufacturer and marketer of adhesives and other specialty chemical products. We have three reportable segments: Hygiene, Health and Consumable Adhesives, Engineering Adhesives and Construction Adhesives.

The Hygiene, Health and Consumable Adhesives operating segment manufactures and supplies adhesives products in the assembly, packaging, converting, nonwoven and hygiene, health and beauty, flexible packaging, graphic arts and envelope markets. The Engineering Adhesives operating segment provides high-performance adhesives to the transportation, electronics, clean energy, aerospace and defense, performance wood, insulating glass, textile, appliance and heavy machinery markets. The Construction Adhesives operating segment manufactures and provides specialty adhesives, sealants, tapes, mortars, grouts, and application devices for commercial building roofing systems, heavy infrastructure projects, road/highway/airport transportation applications, telecom/5G utilities, industrial LNG plants, building envelope applications, HVAC insulation systems, and for both residential and commercial flooring underlayment solutions.

Total Company

When reviewing our financial statements, it is important to understand how certain external factors impact us. These factors include:

- Changes in the prices of our raw materials that are primarily derived from refining crude oil and natural gas,

- Global supply of and demand for raw materials,
- Economic growth rates, and
- Currency exchange rates compared to the U.S. dollar.

We purchase thousands of raw materials, the majority of which are petroleum/natural gas derivatives. The price of these derivatives impacts the cost of our raw materials. However, the supply of and demand for key raw materials has a greater impact on our costs. As demand increases in high-growth areas, the supply of key raw materials may tighten, resulting in certain materials being put on allocation. Natural disasters, such as hurricanes, also can have an impact as key raw material producers are shut down for extended periods of time. We continually monitor capacity utilization figures, market supply and demand conditions, feedstock costs and inventory levels, as well as derivative and intermediate prices, which affect our raw materials. With approximately 75 percent of our cost of sales accounted for by raw materials, our financial results are extremely sensitive to changing costs in this area.

The pace of economic growth directly impacts certain industries to which we supply products. For example, adhesives-related revenues from durable goods customers in areas such as appliances, furniture and other woodworking applications tend to fluctuate with the overall economic activity. In business components such as Construction Adhesives and insulating glass in Engineering Adhesives, revenues tend to move with more specific economic indicators such as housing starts and other construction-related activity.

The movement of foreign currency exchange rates as compared to the U.S. dollar impacts the translation of the foreign entities' financial statements into U.S. dollars. As foreign currencies weaken against the U.S. dollar, our revenues and costs decrease as the foreign currency-denominated financial statements translate into fewer U.S. dollars. The fluctuations of the Euro, Chinese renminbi, British pound sterling, Egyptian pound, Turkish lira, Brazilian real, Canadian dollar, Australian dollar and Mexican peso against the U.S. dollar have the largest impact on our financial results as compared to all other currencies. In 2023, currency fluctuations had a negative impact on net revenue of approximately \$88.5 million as compared to 2022.

Key financial results and transactions for 2023 included the following:

- Net revenue decreased 6.4 percent from 2022 primarily driven by an 8.4 percent decrease in sales volume and a 2.4 percent decrease due to currency fluctuations, partially offset by a 3.3 percent increase due to acquisitions and 2.9 percent increase in product pricing. Additionally, in 2022, we had a 53-week year compared to a 52-week year in 2023, and 2023 revenue was lower by 1.8 percent due to the extra week in 2022.
- Gross profit margin increased to 28.7 percent in 2023 from 25.7 percent in 2022, due to an increase in product pricing and lower raw material costs partially offset by the impact of lower sales volume.
- Cash flow generated by operating activities was \$378.4 million in 2023 as compared to \$256.5 million in 2022.

Our total year organic revenue growth, which we define as the combined variances from sales volume and product pricing, decreased 5.5 percent for 2023 compared to 2022 due to a decrease in sales volume, partially offset by an increase in product pricing.

In 2023, our diluted earnings per share was \$2.59 compared to \$3.26 in 2022. The lower earnings per share in 2023 compared to 2022 was primarily due to lower net revenue, higher operating costs, interest expense and income tax expense, partially offset by lower raw material costs.

Information pertaining to fiscal year 2021 was included in the Company's Annual Report on Form 10-K for the year ended December 3, 2022, under Part II, Item 7 "Management's Discussion and Analysis of Financial Position and Results of Operations," which was filed with the SEC on January 24, 2023.

Project ONE

In December 2012, our Board of Directors approved a multi-year project to replace and enhance our existing core information technology platforms. The scope for this project includes most of the basic transaction processing for the company including customer orders, procurement, manufacturing and financial reporting. The project envisions harmonized business processes for all of our operating segments supported with one standard software configuration. The execution of this project, which we refer to as Project ONE, is being supported by internal resources and consulting services. Implementation of Project ONE began in our North America adhesives business in 2014 and, through 2023, we completed implementation of this system in various parts of our business including Latin America (except Brazil), Australia, and various other businesses in North America and EIMEA. During 2024 and beyond, we will continue implementation in North America, EIMEA, Brazil and Asia Pacific.

Total expenditures for Project ONE are estimated to be \$240 to \$260 million, of which 60-65% is expected to be capital expenditures. Our total project-to-date expenditures are approximately \$200 million, of which approximately \$120 million are capital expenditures. Given the complexity of the implementation, the total investment to complete the project may exceed our estimate.

Restructuring Plans

During the second and third quarters of 2023, the Company approved restructuring plans (the “Plans”) related to organizational changes and other actions to optimize operations and integrate acquired businesses. In implementing the Plans, the Company currently expects to incur costs of approximately \$39.1 million to \$44.1 million (\$30.4 million to \$34.4 million after-tax), which include (i) cash expenditures of approximately \$28.4 million to \$29.6 million (\$22.0 million to \$23.0 million after-tax) for severance and related employee costs globally and (ii) other restructuring costs related to the streamlining of processes and the payment of anticipated income taxes in certain jurisdictions related to the Plans. We have incurred costs of \$27.0 million under the Plans as of December 2, 2023. The Plans began to be implemented in the second quarter of fiscal year 2023 and are currently expected to be completed during fiscal year 2026. The restructuring costs will be spread across the next several fiscal quarters as the measures are implemented with the majority of the charges recognized and cash payments occurring in fiscal 2023 and 2024.

Critical Accounting Policies and Significant Estimates

Management’s discussion and analysis of our results of operations and financial condition are based upon the Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. We believe the critical accounting policies and areas that require the most significant judgments and estimates to be used in the preparation of the Consolidated Financial Statements relate to goodwill impairment; pension and other postretirement assumptions; long-lived assets recoverability; valuation of product, environmental and other litigation liabilities; valuation of deferred tax assets and accuracy of tax contingencies; and valuation of acquired assets and liabilities.

Goodwill

Goodwill is the excess of cost of an acquired entity over the amounts assigned to assets acquired and liabilities assumed in a purchase business combination. Goodwill is allocated to our reporting units, which are our operating segments or one level below our operating segments (the component level). Reporting units are determined by the discrete financial information available for the component and whether it is regularly reviewed by segment management. Components are aggregated into a single reporting unit if they share similar economic characteristics. Our reporting units are as follows: Hygiene, Health and Consumable Adhesives, Engineering Adhesives and Construction Adhesives.

We evaluate our goodwill for impairment annually at the beginning of the fourth quarter or earlier upon the occurrence of substantive unfavorable changes in economic conditions, industry trends, costs, cash flows, or ongoing declines in market capitalization. The quantitative impairment test requires judgment, including the identification of reporting units, the assignment of assets, liabilities and goodwill to reporting units, and the determination of fair value of each reporting unit. The impairment test requires the comparison of the fair value of each reporting unit with its carrying amount, including goodwill. In performing the impairment test, we determined the fair value of our reporting units through the income approach by using discounted cash flow (“DCF”) analyses. Determining fair value requires the Company to make judgments about appropriate forecasted revenue and related revenue growth rate, the earnings before interest, taxes, depreciation and amortization (“EBITDA”) margins rate and the weighted average cost of capital. The cash flows employed in the DCF analysis for each reporting unit are based on the reporting unit's budget, long-term business plan and recent operating performance. Discount rate assumptions are based on an assessment of the risk inherent in the future cash flows of the respective reporting unit and market conditions. Given the inherent uncertainty in determining the assumptions underlying a DCF analysis, actual results may differ from those used in our valuations. In assessing the reasonableness of the determined fair values, we also reconciled the aggregate determined fair value of the Company to the Company's market capitalization, which, at the date of our 2023 impairment test, included a 26 percent control premium.

For the 2023 impairment test, the fair value of the reporting units exceeded the respective carrying values by 8 percent to 140 percent. Significant assumptions used in the DCF analysis included discount rates that ranged from 10.1 percent to 12.3 percent and long-term revenue growth rates. The Construction Adhesives reporting unit, with \$432.8 million of goodwill assigned to it as of December 2, 2023, exceeded the respective carrying value by 8 percent. An increase in the discount rate of 10 basis points or a decrease in the long-term growth rates of 10 percent would result in the fair value of the Construction Adhesives reporting unit falling below its carrying value. The Engineering Adhesives and Hygiene, Health and Consumable Adhesives reporting units had significant fair value in excess of carrying value.

Management will continue to monitor these reporting units for changes in the business environment that could impact recoverability. The recoverability of goodwill is dependent upon the continued growth of cash flows from our business activities. If the economy or business environment falter and we are unable to achieve our assumed revenue growth rates or profit margin percentages, our projections used would need to be remeasured, which could impact the carrying value of our goodwill in one or more of our reporting units. Most significantly, for our Construction Adhesives reporting unit, a decrease in the planned volume revenue growth would negatively impact the fair value of the reporting unit and the calculation of excess carrying value.

See Note 5 to the Consolidated Financial Statements for further information regarding goodwill.

Pension and Other Postretirement Plan Assumptions

We sponsor defined-benefit pension plans in both the U.S. and non-U.S. entities. Also in the U.S., we sponsor other postretirement plans for health care and life insurance benefits. Expenses and liabilities for the pension plans and other postretirement plans are actuarially calculated. These calculations are based on our assumptions related to the discount rate, expected return on assets, projected salary increases and health care cost trend rates. Note 10 to the Consolidated Financial Statements includes disclosure of assumptions employed in these measurements for both the non-U.S. and U.S. plans.

The discount rate assumption is determined using an actuarial yield curve approach, which results in a discount rate that reflects the characteristics of the plan. The approach identifies a broad population of corporate bonds that meet the quality and size criteria for the particular plan. We use this approach rather than a specific index that has a certain set of bonds that may or may not be representative of the characteristics of our particular plan. A higher discount rate reduces the present value of the pension obligations. The discount rate for the U.S. pension plan was 5.66 percent at December 2, 2023, 5.36 percent at December 3, 2022 and 2.76 percent at November 27, 2021. Net periodic pension cost for a given fiscal year is based on assumptions developed at the end of the previous fiscal year. A discount rate change of 0.5 percentage points at December 2, 2023 would impact U.S. pension and other postretirement plan (income) expense by \$0.1 million (pre-tax) in fiscal 2024. Discount rates for non-U.S. plans are determined in a manner consistent with the U.S. plans.

The expected long-term rate of return on plan assets assumption for the U.S. pension plan was 7.75 percent in 2023, 7.00 percent in 2022 and 7.25 percent in 2021. Our expected long-term rate of return on U.S. plan assets was based on our target asset allocation assumption of 55 percent equities and 45 percent fixed-income. Management, in conjunction with our external financial advisors, determines the expected long-term rate of return on plan assets by considering the expected future returns and volatility levels for each asset class that are based on historical returns and forward looking observations. For 2023, the expected long-term rate of return on the target equities allocation was 8.50 percent and the expected long-term rate of return on the target fixed-income allocation was 5.60 percent. The total plan rate of return assumption included an estimate of the effect of diversification and the plan expense. A change of 0.5 percentage points for the expected return on assets assumption would impact U.S. net pension and other postretirement plan expense by approximately \$2.3 million (pre-tax).

Management, in conjunction with our external financial advisors, uses the actual historical rates of return of the asset categories to assess the reasonableness of the expected long-term rate of return on plan assets. The most recent 10-year and 20-year historical equity returns are shown in the table below. Our expected rate of return on our total portfolio is consistent with the historical patterns observed over longer time frames.

<u>U.S. Pension Plan Historical Actual Rates of Return</u>	<u>Total Portfolio</u>	<u>Equities</u>	<u>Fixed Income</u>
10-year period	5.4%	6.9%	3.4%
20-year period	6.5%	7.1%	5.5%*

* Beginning in 2022, our target allocation migrated from 60 percent equities and 40 percent fixed-income to 55 percent equities and 45 percent fixed income. The historical actual rate of return for the fixed income of 5.5 percent is since inception (17 years, 11 months).

The expected long-term rate of return on plan assets assumption for non-U.S. pension plans was a weighted-average of 5.02 percent in 2023 compared to 3.49 percent in 2022 and 6.15 percent in 2021. The expected long-term rate of return on plan assets assumption used in each non-U.S. plan is determined on a plan-by-plan basis for each local jurisdiction and is based on expected future returns for the investment mix of assets currently in the portfolio for that plan. Management, in conjunction with our external financial advisors, develops expected rates of return for each plan, considers expected long-term returns for each asset category in the plan, reviews expectations for inflation for each local jurisdiction, and estimates the effect of active management of the plan's assets. Our largest non-U.S. pension plans are in the United Kingdom and Germany. The expected long-term rate of return on plan assets for the United Kingdom was 4.50 percent and the expected long-term rate of return on plan assets for Germany was 5.50 percent. Management, in conjunction with our external financial advisors, uses actual historical returns of the asset portfolio to assess the reasonableness of the expected rate of return for each plan.

The projected salary increase assumption is based on historic trends and comparisons to the external market. Higher rates of increase result in higher pension expenses. As this rate is also a long-term expected rate, it is less likely to change on an annual basis. Under the U.S. pension plan, the compensation amount was locked-in as of May 31, 2011 and thus the benefit no longer includes compensation increases. Projected salary increase assumptions for non-U.S. plans are determined in a manner consistent with the U.S. plans.

Recoverability of Long-Lived Assets

The assessment of the recoverability of long-lived assets reflects our assumptions and estimates. Factors that we must estimate when performing impairment tests include sales volume, prices, inflation, currency exchange rates, tax rates and capital spending. Significant judgment is involved in estimating these factors, and they include inherent uncertainties. The measurement of the recoverability of these assets is dependent upon the accuracy of the assumptions used in making these estimates and how the estimates compare to the eventual future operating performance of the specific businesses to which the assets are attributed.

Judgments made by us include the expected useful lives of long-lived assets. The ability to realize undiscounted cash flows in excess of the carrying amounts of such assets is affected by factors such as the ongoing maintenance and improvement of the assets, changes in economic conditions and changes in operating performance.

Product, Environmental and Other Litigation Liabilities

As disclosed in Item 3. Legal Proceedings and in Note 1 and Note 14 to the Consolidated Financial Statements, we are subject to various claims, lawsuits and other legal proceedings. Reserves for loss contingencies associated with these matters are established when it is determined that a liability is probable and the amount can be reasonably estimated. The assessment of the probable liabilities is based on the facts and circumstances known at the time that the financial statements are being prepared. For cases in which it is determined that a liability is probable but only a range for the potential loss exists, the minimum amount of the range is recorded and subsequently adjusted as better information becomes available.

For cases in which insurance coverage is available, the gross amount of the estimated liabilities is accrued, and a receivable is recorded for any probable estimated insurance recoveries. A discussion of environmental, product and other litigation liabilities is disclosed in Item 3. Legal Proceedings and Note 14 to the Consolidated Financial Statements.

Based upon currently available facts, we do not believe that the ultimate resolution of any pending legal proceeding, individually or in the aggregate, will have a material adverse effect on our long-term financial condition. However, adverse developments and/or periodic settlements could negatively affect our results of operations or cash flows in one or more future quarters.

Income Tax Accounting

As part of the process of preparing the Consolidated Financial Statements, we are required to estimate income taxes in each of the jurisdictions in which we operate. The process involves estimating actual current tax expense along with assessing temporary differences resulting from differing treatment of items for book and tax purposes. These temporary differences result in deferred tax assets and liabilities, which are included in the Consolidated Balance Sheets. We record a valuation allowance to reduce our deferred tax assets to the amount that is more-likely-than-not to be realized. We have considered future taxable income and ongoing tax planning strategies in assessing the need for the valuation allowance. Increases in the valuation allowance result in additional expense to be reflected within the tax provision in the Consolidated Statements of Income. The valuation allowance to reduce deferred tax assets totaled \$15.6 million as of December 2, 2023, and \$14.4 million as of December 3, 2022.

We recognize tax benefits for tax positions for which it is more-likely-than-not that the tax position will be sustained by the applicable tax authority at the largest amount of tax benefit that is greater than fifty percent likely of being realized upon ultimate settlement. We do not recognize a financial statement benefit for a tax position that does not meet the more-likely-than-not threshold. We believe that our liabilities for income taxes reflect the most likely outcome. It is difficult to predict the final outcome or the timing of the resolution of any particular tax position. Future changes in judgment related to the resolution of tax positions will impact earnings in the quarter of such change. We adjust our income tax liabilities related to tax positions in light of changing facts and circumstances. Settlement with respect to a tax position would usually require cash. Based upon our analysis of tax positions taken on prior year returns and expected tax positions to be taken for the current year tax returns, we have identified gross uncertain tax positions of \$14.3 million as of December 2, 2023 and \$17.6 million as of December 3, 2022.

We have not recorded U.S. deferred income taxes for certain of our non-U.S. subsidiaries undistributed earnings as such amounts are intended to be indefinitely reinvested outside of the U.S. Should we change our business strategies related to these non-U.S. subsidiaries, additional U.S. tax liabilities could be incurred. It is not practical to estimate the amount of these additional tax liabilities. See Note 11 to the Consolidated Financial Statements for further information on income tax accounting.

Acquisition Accounting

As we enter into business combinations, we perform acquisition accounting requirements including the following:

- Identifying the acquirer,
- Determining the acquisition date,
- Recognizing and measuring the identifiable assets acquired and the liabilities assumed, and
- Recognizing and measuring goodwill or a gain from a bargain purchase.

We complete valuation procedures and record the resulting fair value of the acquired assets and assumed liabilities based upon the valuation of the business enterprise and the tangible and intangible assets acquired. Enterprise value allocation methodology requires management to make assumptions and apply judgment to estimate the fair value of assets acquired and liabilities assumed. If estimates or assumptions used to complete the enterprise valuation and estimates of the fair value of the acquired assets and assumed liabilities significantly differed from assumptions made, the resulting difference could materially affect the fair value of net assets.

The calculation of the fair value of the tangible assets, including property, plant and equipment, utilizes the cost approach, which computes the cost to replace the asset, less accrued depreciation resulting from physical deterioration, functional obsolescence and external obsolescence. The calculation of the fair value of the identified intangible assets are determined using cash flow models following the income approach or a discounted market-based methodology approach. Significant inputs include estimated revenue growth rates, gross margins, operating expenses, and estimated attrition, royalty and discount rates. Goodwill is recorded as the difference in the fair value of the acquired assets and assumed liabilities and the purchase price.

Results of Operations

Net revenue

(\$ in millions)	2023	2022	2023 vs 2022
Net revenue	\$ 3,510.9	\$ 3,749.2	(6.4)%

We review variances in net revenue in terms of changes related to sales volume and product pricing (referred to as organic revenue growth), business acquisitions and divestitures (M&A) and changes in foreign currency exchange rates. The following table shows the net revenue variance analysis for fiscal 2023 compared to fiscal 2022:

	<u>2023 vs 2022</u>
Organic revenue growth.....	(5.5)%
Extra week in 2022 (53-week year)	(1.8)%
M&A.....	3.3%
Currency.....	(2.4)%
Net revenue growth.....	<u>(6.4)%</u>

Organic revenue decreased 5.5 percent in 2023 compared to 2022 and consisted of an 11.0 percent decrease in Construction Adhesives, a 5.1 percent decrease in Hygiene, Health and Consumable Adhesives and a 4.2 percent decrease in Engineering Adhesives. The decrease is driven by a decrease in sales volume, partially offset by an increase in product pricing. The 3.3 percent increase from M&A is due to acquisitions that occurred during the year. The negative 2.4 percent currency impact was primarily driven by a weaker Egyptian pound, Chinese renminbi, Turkish lira and Argentinian peso offset by a stronger Euro and Mexican peso compared to the U.S. dollar. Additionally, net revenue in 2023 was lower than 2022 by 1.8 percent from an additional week of revenue in 2022 as it was a 53-week fiscal year compared to a 52-week fiscal year in 2023.

Cost of sales

<u>(\$ in millions)</u>	<u>2023</u>	<u>2022</u>	<u>2023 vs 2022</u>
Cost of sales	\$ 2,502.0	\$ 2,785.5	(10.2)%
Percent of net revenue.....	71.3%	74.3%	

Cost of sales in 2023 compared to 2022 decreased 300 basis points as a percentage of net revenue. Lower raw material costs and higher product pricing partially offset by the impact of lower sales volume led to the decrease.

Gross profit

<u>(\$ in millions)</u>	<u>2023</u>	<u>2022</u>	<u>2023 vs 2022</u>
Gross profit	\$ 1,008.9	\$ 963.7	4.7%
Percent of net revenue.....	28.7%	25.7%	

Gross profit in 2023 increased 4.7 percent and gross profit margin increased 300 basis points compared to 2022. The increase in gross profit margin was primarily due to lower raw material costs and higher product pricing partially offset by the impact of lower sales volume.

Selling, general and administrative (SG&A) expenses

<u>(\$ in millions)</u>	<u>2023</u>	<u>2022</u>	<u>2023 vs 2022</u>
SG&A	\$ 653.8	\$ 641.0	2.0%
Percent of net revenue.....	18.6%	17.1%	

SG&A expenses for 2023 increased \$12.8 million, or 2.0 percent compared to 2022. The increase is due to higher restructuring and acquisition project costs and the impact of acquisitions. SG&A expenses as a percent of revenue increased by 150 basis points compared to the prior year due to lower net revenue and higher restructuring and acquisition project costs.

Other income, net

(\$ in millions)	2023	2022
Other income, net.....	\$ 9.8	\$ 12.9

Other income, net in 2023 included \$20.3 million of net defined benefit pension benefits and \$1.2 of other income, partially offset by \$11.6 million of currency transaction losses and a \$0.1 million loss on disposal of assets. Other income, net in 2022 included \$26.8 million of net defined benefit pension benefits and a \$1.4 million gain on disposal of assets, partially offset by \$12.9 million of currency transaction losses and \$2.4 of other expense. The \$26.8 million of net defined benefit pension benefits for 2022 included a \$3.3 million settlement loss related to the termination of our Canadian defined benefit pension plan.

Interest expense

(\$ in millions)	2023	2022
Interest expense.....	\$ 134.6	\$ 91.5

Interest expense was \$134.6 million and \$91.5 million in 2023 and 2022, respectively, and was higher primarily due to higher debt balances and higher interest rates. We capitalized \$1.8 million and \$1.5 million of interest expense in 2023 and 2022, respectively.

Interest income

(\$ in millions)	2023	2022
Interest income.....	\$ 3.9	\$ 7.8

Interest income in 2023 and 2022 was \$3.9 million and \$7.8 million, respectively, consisting primarily of interest on cross-currency swap activity and other miscellaneous interest income.

Income tax expense:

(\$ in millions)	2023	2022
Income tax expense.....	\$ 93.5	\$ 77.2
Effective tax rate	39.9%	30.6%

Income tax expense of \$93.5 million in 2023 includes \$26.1 million of discrete tax expense, primarily related to the impact of withholding tax recorded on earnings that are no longer permanently reinvested, as well as other various U.S. and foreign tax matters. Excluding the discrete tax expense of \$26.1 million, the overall effective tax rate was 28.8 percent.

Income tax expense of \$77.2 million in 2022 includes \$9.3 million of discrete tax expense, primarily related to the revaluation of cross-currency swap agreements due to depreciation of the Euro versus the U.S. dollar and several foreign discrete items, offset in part by U.S. tax benefit for state deferred tax rate change and excess tax benefit for stock compensation. Excluding the discrete tax expense of \$9.3 million, the overall effective tax rate was 26.9 percent.

The increase in the overall effective tax rate for 2023 compared to 2022, excluding the impact of discrete items, is primarily due to the change in the mix of earnings across jurisdictions, as well as the impact of withholding tax recorded on current earnings that will not be permanently invested.

Income from equity method investments

(\$ in millions)	<u>2023</u>	<u>2022</u>
Income from equity method investments	\$ 4.4	\$ 5.7

The income from equity method investments relates to our 50 percent ownership of the Sekisui-Fuller joint venture in Japan. The lower income for 2023 compared to 2022 is due to the unfavorable impact of the weakening of the Japanese yen against the U.S. dollar and lower net income in our joint venture.

Net income attributable to H.B. Fuller

(\$ in millions)	<u>2023</u>	<u>2022</u>	<u>2023 vs 2022</u>
Net income attributable to H.B. Fuller	\$ 144.9	\$ 180.3	(19.6)%
Percent of net revenue	4.1%	4.8%	

Net income attributable to H.B. Fuller was \$144.9 million in 2023 compared to \$180.3 million in 2022. Diluted earnings per share were \$2.59 per share in 2023 and \$3.26 per share in 2022.

Operating Segment Results

We are required to report segment information in the same way that we internally organize our business for assessing performance and making decisions regarding allocation of resources. For segment evaluation by the chief operating decision maker, segment operating income is defined as gross profit less SG&A expenses. Inter-segment revenues are recorded at cost plus a markup for administrative costs. Corporate expenses, other than those included in Corporate Unallocated, are allocated to each operating segment.

We have three reportable segments: Hygiene, Health and Consumable Adhesives, Engineering Adhesives and Construction Adhesives. The tables below provide certain information regarding the net revenue and segment operating income of each of our operating segments. Corporate Unallocated includes business acquisition and integration costs, organizational restructuring charges and project costs related to the implementation of Project ONE.

Net Revenue by Segment

(\$ in millions)	<u>2023</u>		<u>2022</u>	
	Net Revenue	% of Total	Net Revenue	% of Total
Hygiene, Health and Consumable Adhesives.....	\$ 1,601.5	46%	\$ 1,695.9	45%
Engineering Adhesives.....	1,428.7	41%	1,532.7	41%
Construction Adhesives	480.7	13%	520.6	14%
Total.....	<u>\$ 3,510.9</u>	<u>100%</u>	<u>\$ 3,749.2</u>	<u>100%</u>

Segment Operating Income (Loss)

(\$ in millions)	<u>2023</u>		<u>2022</u>	
	Operating Income (Loss)	% of Total	Operating Income (Loss)	% of Total
Hygiene, Health and Consumable Adhesives.....	\$ 215.1	61%	\$ 165.8	51%
Engineering Adhesives.....	187.3	53%	168.8	52%
Construction Adhesives	6.0	1%	23.0	8%
Segment total	408.4	115%	357.6	111%
Corporate Unallocated	(53.3)	(15)%	(34.9)	(11)%
Total.....	<u>\$ 355.1</u>	<u>100%</u>	<u>\$ 322.7</u>	<u>100%</u>

The following table provides a reconciliation of segment operating income to income before income taxes and income from equity method investments, as reported in the Consolidated Statements of Income.

(\$ in millions)	2023	2022
Segment operating income.....	\$ 355.1	\$ 322.7
Other income, net.....	9.8	12.9
Interest expense.....	(134.6)	(91.5)
Interest income.....	3.9	7.8
Income before income taxes and income from equity method investments.....	<u>\$ 234.2</u>	<u>\$ 251.9</u>

Hygiene, Health and Consumable Adhesives

(\$ in millions)	2023	2022	2023 vs 2022
Net revenue.....	\$ 1,601.5	\$ 1,695.9	(5.6)%
Segment operating income.....	\$ 215.1	\$ 165.8	29.7%
Segment profit margin %.....	13.4%	9.8%	

The following tables provide details of Hygiene, Health and Consumable Adhesives net revenue variances:

	2023 vs 2022
Organic revenue growth.....	(5.1)%
Extra week in 2022 (53-week year).....	(1.8)%
M&A.....	4.6%
Currency.....	(3.3)%
Net revenue growth.....	<u>(5.6)%</u>

Net revenue decreased 5.6 percent in 2023 compared to 2022. The decrease in organic revenue growth was attributable to a decrease in sales volume, partially offset by an increase in product pricing. The 4.6 percent increase in net revenue from M&A was due to acquisitions of Lemtapes in the first quarter of 2023, Beardow Adams in the second quarter of 2023 and Adhezion in the third quarter of 2023. The negative currency effect was due to a weaker Egyptian pound, Turkish lira, Argentinian peso and Chinese renminbi offset by a stronger Mexican peso and Euro compared to the U.S. dollar. Additionally, net revenue in 2023 was lower than 2022 by 1.8 percent from an additional week of revenue in 2022 as it was a 53-week fiscal year compared to a 52-week fiscal year in 2023. As a percentage of net revenue, gross margin increased due to lower raw material costs and higher product pricing partially offset by the impact of lower sales volume. SG&A expenses as a percentage of net revenue increased due to the impact of acquisitions and lower net revenue. Segment operating income increased 29.7 percent and segment operating margin as a percentage of net revenue increased 360 basis points in 2023 as compared to 2022.

Engineering Adhesives

(\$ in millions)	2023	2022	2023 vs 2022
Net revenue.....	\$ 1,428.7	\$ 1,532.7	(6.8)%
Segment operating income.....	\$ 187.3	\$ 168.8	11.0%
Segment profit margin %.....	13.1%	11.0%	

The following tables provide details of Engineering Adhesives net revenue variances:

	2023 vs 2022
Organic revenue growth.....	(4.2)%
Extra week in 2022 (53-week year).....	(1.8)%
M&A.....	1.2%
Currency.....	(2.0)%
Net revenue growth.....	<u>(6.8)%</u>

Net revenue decreased 6.8 percent in 2023 compared to 2022. The decrease in organic revenue growth was attributable to a decrease in sales volume, partially offset by a slight increase in product pricing. The 1.2 percent increase in net revenue from M&A was due to the acquisitions of ZKLT in the third quarter of 2022 and Aspen in the first quarter of 2023. The negative currency effect was due to a weaker Chinese renminbi and Turkish lira partially offset by a stronger Euro compared to the U.S. dollar. Additionally, net revenue in 2023 was lower than 2022 by 1.8 percent from an additional week of revenue in 2022 as it was a 53-week fiscal year compared to a 52-week fiscal year in 2023. As a percentage of net revenue, gross margin increased due to lower raw material costs and higher product pricing partially offset by the impact of lower sales volume. SG&A expenses as a percentage of net revenue increased due to lower net revenue. Segment operating income increased 11.0 percent and segment operating margin as a percentage of net revenue increased 210 basis points in 2023 as compared to 2022.

Construction Adhesives

(\$ in millions)	2023	2022	2023 vs 2022
Net revenue	\$ 480.7	\$ 520.6	(7.7)%
Segment operating income	\$ 6.0	\$ 23.0	(73.9)%
Segment profit margin %	1.2%	4.4%	

The following tables provide details of Construction Adhesives net revenue variances:

	2023 vs 2022
Organic revenue growth	(11.0)%
Extra week in 2022 (53-week year)	(1.6)%
M&A	5.4%
Currency	(0.5)%
Net revenue growth	(7.7)%

Net revenue decreased 7.7 percent in 2023 compared to 2022. The decrease in organic revenue growth was attributable to a decrease in sales volume, partially offset by an increase in product pricing. The 5.4 percent increase in net revenue from M&A was due to the acquisitions of GSSI in the fourth quarter of 2022, XChem in the third quarter of 2023 and Sanglier in the fourth quarter of 2023. The negative currency effect was due to a weaker Australian dollar and Canadian dollar offset by a stronger Euro compared to the U.S. dollar. Additionally, net revenue in 2023 was lower than 2022 by 1.6 percent from an additional week of revenue in 2022 as it was a 53-week fiscal year compared to a 52-week fiscal year in 2023. As a percentage of net revenue, gross margin decreased slightly primarily due to the impact of lower sales volume partially offset by higher product pricing and lower raw material costs. SG&A expenses as a percentage of net revenue increased due to the impact of acquisitions and lower net revenue. Segment operating income decreased 73.9 percent and segment operating margin as a percentage of net revenue decreased 320 basis points in 2023 as compared to 2022.

Corporate Unallocated

(\$ in millions)	2023	2022	2023 vs 2022
Segment operating loss	\$ (53.3)	\$ (34.9)	52.7%
Segment profit margin %	NMP	NMP	

NMP = Non-meaningful percentage

Corporate Unallocated includes acquisition and integration-related charges, restructuring-related charges and costs related to the implementation of Project ONE.

Segment operating loss increased 52.7 percent in 2023 reflecting higher restructuring and acquisition project costs compared to 2022.

Financial Condition, Liquidity and Capital Resources

Total cash and cash equivalents as of December 2, 2023 were \$179.5 million compared to \$79.9 million as of December 3, 2022. Total long and short-term debt was \$1,838.4 million as of December 2, 2023 and \$1,765.1 million as of December 3, 2022.

We believe that cash flows from operating activities will be adequate to meet our short-term and long-term liquidity and capital expenditure needs. In addition, we believe we have the ability to obtain both short-term and long-term debt to meet our financing needs for the foreseeable future. Cash available in the United States has historically been sufficient and we expect it will continue to be sufficient to fund U.S. operations, U.S. capital spending and U.S. pension and other postretirement benefit contributions in addition to funding U.S. acquisitions, dividend payments, debt service and share repurchases as needed. For those international earnings considered to be reinvested indefinitely, we currently have no intention to, and plans do not indicate a need to, repatriate these funds for U.S. operations.

Our credit agreements include restrictive covenants that, if not met, could lead to a renegotiation of our credit lines and a significant increase in our cost of financing. At December 2, 2023, we were in compliance with all covenants of our contractual obligations as shown in the following table:

Covenant	Debt Instrument	Measurement	Result as of December 2, 2023
Secured Total Indebtedness / TTM ¹ EBITDA.....	Revolving Facility and Term Loan A Facility	Not greater than 4.75 ²	2.1
TTM ¹ EBITDA / Consolidated Interest Expense	Revolving Facility and Term Loan A Facility	Not less than 2.0	4.6

¹TTM = trailing 12 months

²The Maximum Secured Leverage Ratio prior to June 1, 2024, shall be 4.75 to 1.00 and will step down to 4.50 to 1.00 with respect to quarters ending after June 1, 2024

EBITDA for covenant purposes is defined as consolidated net income, plus (i) interest expense, (ii) expense for taxes paid or accrued, (iii) depreciation and amortization, (iv) certain non-cash impairment losses, (v) extraordinary non-cash losses incurred other than in the ordinary course of business, (vi) nonrecurring extraordinary non-cash restructuring charges and the non-cash impact of purchase accounting, (vii) any non-cash charge for the excess of rent expense over actual cash rent paid due to the use of straight-line rent, non-cash charge pursuant to any management equity plan, stock option plan or any other management or employee benefit, (viii) any non-cash finance charges in respect of any pension liabilities or other provisions and income (loss) attributable to deferred compensation plans, (ix) any non-recurring or unusual cash restructuring charges and operating improvements, (x) cost savings initiative and cost synergies related to acquisitions within 12 months, (xi) non-capitalized charges relating to the Company's SAP implementation, (xii) fees, costs, expenses and charges incurred in connection with the financing, (xiii) fees, costs, expenses, make-whole or penalty payments and other similar items arising out of acquisitions, investments and dispositions, the incurrence, issuance, repayment or refinancing of indebtedness and any issuance of equity interests; minus, non-recurring or unusual non-cash gains incurred not in the ordinary course of business. Provided that the aggregate amounts that may be added back for any period pursuant to clauses (ix), (x) and (xi) shall not exceed 15% of EBITDA for such period (calculated prior to giving effect to all addbacks and adjustments). For Secured Total Indebtedness / TTM EBITDA ratio, TTM EBITDA is adjusted for the pro forma results from Material Acquisitions and Material Divestitures, both as defined in the Second Amended and Restated Credit Agreement, as if the acquisition or divestiture occurred at the beginning of the calculation period. The full definition is set forth in the Second Amended and Restated Credit Agreement the Company filed as an exhibit to its 8-K filing dated February 21, 2023.

Consolidated Interest Expense for covenant purposes is defined as the interest expense (including without limitation to the portion of capital lease obligations that constitutes imputed interest in accordance with GAAP) of the Company and its subsidiaries calculated on a consolidated basis for such period with respect to all outstanding indebtedness allocable to such period in accordance with GAAP, including net costs (or benefits) under Interest Rate Swap Agreements and commissions, discounts and other fees and charges with respect to letters of credit and the interest component of all Attributable Receivables Indebtedness.

We believe we have the ability to meet all of our contractual obligations and commitments in fiscal 2024.

Net Financial Assets (Liabilities)

(\$ in millions)	2023	2022
Financial assets:		
Cash and cash equivalents.....	\$ 179.5	\$ 79.9
Foreign exchange contracts.....	13.5	10.3
Interest rate swaps.....	3.6	-
Financial liabilities:		
Notes payable.....	(1.8)	(28.9)
Long-term debt.....	(1,836.6)	(1,736.3)
Foreign exchange contracts.....	(5.0)	(4.6)
Interest rate swaps.....	(41.6)	(42.5)
Net investment hedges.....	(72.6)	(54.0)
Net financial liabilities.....	<u>\$ (1,761.1)</u>	<u>\$ (1,776.1)</u>

Of the \$179.5 million in cash and cash equivalents as of December 2, 2023, \$152.9 million was held outside the U.S. Of the \$152.9 million of cash held outside the U.S., earnings on \$136.0 million are indefinitely reinvested outside of the U.S. It is not practical for us to determine the U.S. tax implications of the repatriation of these funds.

There are no contractual or regulatory restrictions on the ability of consolidated and unconsolidated subsidiaries to transfer funds in the form of cash dividends, loans or advances to us. Our credit facilities have the following restrictions related to investments and general limitations: 1) a credit facility limitation restricting investments, loans, advances or capital contributions from Loan Parties to non-Loan Parties in excess of \$150.0 million, 2) a credit facility limitation that provides total investments, loans, advances or guarantees not otherwise permitted in the credit agreement for all subsidiaries shall not exceed \$150.0 million in the aggregate, 3) a credit facility limitation that provides total investments, dividends, and distributions shall not exceed the Available Amount defined in these agreements, all three of which do not apply when our secured leverage ratio is below 4.0x, and 4) typical statutory restrictions, which prohibit distributions in excess of net capital or similar tests. Additionally, we have taken the income tax position that the majority of our cash in non-U.S. locations is indefinitely reinvested.

Debt Outstanding and Debt Capacity

Notes Payable

Notes payable were \$1.8 million at December 2, 2023 and \$28.9 million at December 3, 2022. These amounts primarily represented various foreign subsidiaries' short-term borrowings that were not part of committed lines. The current weighted-average interest rates on these short-term borrowings were approximately 10.75 percent in 2023 and 16.2 percent in 2022.

Long-Term Debt

Long-term debt consists of a senior secured term loan ("Term Loan A") with an aggregate principal amount of \$500.0 million and a senior secured term loan ("Term Loan B") with an aggregate principal amount of \$800.0 million. Interest on Term Loan A is payable at the Secured Overnight Financing Rate ("SOFR") plus an adjustment of 0.10 percent and an interest rate spread of 1.50 percent (6.95 percent at December 2, 2023). The interest rate spread is based on a secured leverage grid. Term Loan A matures on February 15, 2028. At December 2, 2023, a balance of \$487.5 million was outstanding on Term Loan A. Interest on Term Loan B is payable at SOFR plus an interest rate spread of 2.25 percent with a SOFR floor of 0.50 percent (7.60 percent at December 2, 2023). Term Loan B matures on February 15, 2030. At December 2, 2023, a balance of \$796.0 million was outstanding on Term Loan B. On January 12, 2023, we entered into an interest rate swap agreement (amended on February 28, 2023) to convert \$400,000 of our variable rate 1-month SOFR to a fixed rate of 3.7260. On March 16, 2023, we entered into interest rate swap agreements to convert \$300,000 of our 1-month SOFR rate debt to a fixed rate of 3.7210 percent and to convert \$100,000 of our 1-month SOFR rate debt to a fixed rate of 3.8990 percent.

Long-term debt also consists of 10-year unsecured public notes ("10-year Public Notes") with an aggregate principal amount of \$300.0 million due February 15, 2027 with a fixed coupon of 4.00 percent and 8-year unsecured public notes ("8-year Public Notes") with an aggregate principal amount of \$300.0 million due October 15, 2028 with a fixed coupon of 4.25 percent. We currently have no intention to prepay the Public Notes. On February 12, 2021, we entered into an interest rate swap agreement to convert our 8-year Public Notes to a variable interest rate of 1-month LIBOR plus 3.28 percent. See Note 12 to the Consolidated Financial Statements for further discussion of this interest rate swap.

Interest payable on our long-term debt totaled \$1.7 million as of December 2, 2023.

Revolving Credit Facility

We have a revolving credit agreement with a consortium of financial institutions at December 2, 2023. This revolving credit agreement creates a secured multi-currency revolving credit facility that we can draw upon to repay existing indebtedness, finance working capital needs, finance acquisitions and for general corporate purposes up to a maximum of \$700.0 million. Interest on the revolving credit facility is payable at SOFR plus an adjustment of 0.10 percent and an interest rate spread of 1.50 percent (6.95 percent at December 2, 2023). A facility fee of 20 basis points of the unused commitment under the revolving credit facility is payable quarterly. The interest rate spread and the facility fee are based on a secured leverage grid. At December 2, 2023, there was no balance outstanding on the Revolving Credit Facility. The Revolving Credit Facility matures on February 15, 2028.

We are subject to mandatory prepayments in the first quarter of each fiscal year equal to 50 percent of Excess Cash Flow, as defined in our debt agreement, of the prior fiscal year less any voluntary prepayments made during that fiscal year. The Excess Cash Flow Percentage shall be reduced to 25 percent when our Secured Leverage Ratio is below 4.25:1.00 and to 0 percent when our Secured Leverage Ratio is below 3.75:1.00.

For further information related to debt outstanding and debt capacity, see Note 7 to the Consolidated Financial Statements.

Goodwill and Other Intangible Assets

As of December 2, 2023, goodwill totaled \$1,486.5 million (31.5 percent of total assets) and other intangible assets, net of accumulated amortization, totaled \$729.1 million (15.4 percent of total assets).

The components of goodwill and other identifiable intangible assets, net of amortization, by segment are as follows:

2023				
(\$ in millions)	Hygiene, Health and Consumable Adhesives	Engineering Adhesives	Construction Adhesives	Total
Goodwill	\$ 402.6	\$ 651.1	\$ 432.8	\$ 1,486.5
Purchased technology and patents.....	41.7	28.9	14.5	85.1
Customer relationships.....	126.8	226.9	250.6	604.3
Tradenames.....	11.6	13.6	10.2	35.4
Other finite-lived intangible assets.....	1.5	-	2.4	3.9
Indefinite-lived intangible assets.....	-	0.5	-	0.5
2022				
(\$ in millions)	Hygiene, Health and Consumable Adhesives	Engineering Adhesives	Construction Adhesives	Total
Goodwill	\$ 329.0	\$ 637.9	\$ 425.7	\$ 1,392.6
Purchased technology and patents.....	5.7	31.5	15.1	52.3
Customer relationships.....	105.8	228.5	281.3	615.6
Tradenames.....	4.5	14.6	9.8	28.9
Other finite-lived intangible assets.....	1.9	0.1	2.8	4.8
Indefinite-lived intangible assets.....	-	0.5	-	0.5

Selected Metrics of Liquidity and Capital Resources

Key metrics we monitor are net working capital as a percent of annualized net revenue, trade receivables days sales outstanding (DSO), inventory days on hand, free cash flow after dividends and debt capitalization ratio.

	December 2, 2023	December 3, 2022
Net working capital as a percentage of annualized net revenue ¹	16.1%	16.6%
Trade receivables DSO (in days) ²	58	62
Inventory days on hand (in days) ³	67	71
Trade accounts payable DPO (in days) ⁴	64	64
Free cash flow after dividends ⁵	\$ 215.9	\$ 87.3
Debt capitalization ratio ⁶	51.1%	52.3%

¹ Net working capital (trade receivables, net of allowance for doubtful accounts plus inventory minus trade payables) divided by annualized net revenue (current quarter, multiplied by 4).

² Trade receivables net of allowance for doubtful accounts multiplied by 91 (13 weeks) and divided by the net revenue for the quarter.

³ Total inventory multiplied by 91 and divided by cost of sales (excluding delivery costs) for the quarter.

⁴ Trade accounts payable multiplied by 91 (13 weeks) and divided by the net revenue for the quarter.

⁵ Net cash provided by operating activities less purchased property, plant and equipment and dividends paid. See reconciliation to net cash provided by operating activities to free cash flow after dividends below.

⁶ Total debt divided by (total debt plus total stockholders' equity).

Free cash flow after dividends, a non-GAAP financial measure, is defined as net cash provided by operating activities less purchased property, plant and equipment and dividends paid. Free cash flow after dividends is an integral financial measure used by the Company to assess its ability to generate cash in excess of its operating needs, therefore, the Company believes this financial measure provides useful information to investors. The following table reflects the manner in which free cash flow after dividends is determined and provides a reconciliation of free cash flow after dividends to net cash provided by operating activities, the most directly comparable financial measure calculated and reported in accordance with U.S. GAAP.

Reconciliation of "Net cash provided by operating activities" to "Free cash flow after dividends"

(\$ in millions)	2023	2022
Net cash provided by operating activities	\$ 378.4	\$ 256.5
Less: Purchased property, plant and equipment	119.1	130.0
Less: Dividends paid	43.4	39.2
Free cash flow after dividends	<u>\$ 215.9</u>	<u>\$ 87.3</u>

Summary of Cash Flows

Cash Flows from Operating Activities

(\$ in millions)	2023	2022
Net cash provided by operating activities	\$ 378.4	\$ 256.5

Net income including non-controlling interest was \$145.0 million in 2023 and \$180.4 million in 2022. Depreciation and amortization expense totaled \$159.8 million in 2023 compared to \$147.0 million in 2022. The higher depreciation and amortization expense in 2023 is related to the assets acquired in our business acquisitions.

Changes in net working capital (trade receivables, inventory and trade payables) accounted for a source of cash of \$83.5 million compared to a use of cash of \$103.2 million in 2023 and 2022, respectively. Following is an assessment of each of the net working capital components:

- Trade Receivables, net – Changes in trade receivables resulted in a \$68.7 million source of cash in 2023 compared to a \$24.8 million use of cash in 2022. The source of cash in 2023 compared to a use of cash in 2022 was related to higher collections in the current year compared to the prior year. The DSO was 58 days at December 2, 2023 and 62 days at December 3, 2022.
- Inventory – Changes in inventory resulted in a \$72.6 million source of cash in 2023 compared to a \$55.8 million use of cash in 2022. The source of cash in 2023, compared to the use of cash in 2022 is due to lower inventory purchases at lower prices in 2023 compared to the prior year. Inventory days on hand were 67 days at the end of 2023 compared to 71 days at the end of 2022.
- Trade Payables – Changes in trade payables resulted in a \$57.8 million and \$22.6 million use of cash in 2023 and 2022, respectively. The higher use of cash in 2023 compared to 2022 reflects higher payments on trade payables in the current year compared to the prior year. The DPO was 64 days at both the end of 2023 and 2022.

Contributions to our pension and other postretirement benefit plans were \$4.3 million and \$3.0 million in 2023 and 2022, respectively. Income taxes payable resulted in a \$41.2 million source of cash and a \$12.9 million use of cash in 2023 and 2022, respectively. Other assets resulted in a \$7.9 million use of cash and a \$46.5 million source of cash in 2023 and 2022, respectively. The use of cash in 2023 compared to a source of cash in 2022 is primarily driven by a smaller decrease in pension and post-retirement assets related to the year-end pension valuation compared to the prior year and an increase in derivative assets in 2023 compared to a decrease in 2022. Accrued compensation was a \$13.8 million use of cash and a \$1.1 million source of cash in 2023 and 2022, respectively, relating to lower accruals for our employee incentive plans in 2023. Other liabilities resulted in a \$22.9 million and \$4.1 million source of cash in 2023 and 2022, respectively. The higher source of cash in 2023 compared to 2022 was due to an increase in hedging liabilities from interest rate swap activity in 2023 compared to the prior year. Other operating activity was a \$28.0 million use of cash and a \$6.2 million source of cash in 2023 and 2022, respectively. Other operating activity includes equity adjustments related to year-end pension valuations and valuation adjustments for our derivatives.

Cash Flows Used In Investing Activities

(\$ in millions)	2023	2022
Net cash used in investing activities.....	\$ (319.2)	\$ (375.3)

Purchases of property, plant and equipment were \$119.1 million in 2023 compared to \$130.0 million in 2022. The lower purchases in 2023 reflect the timing of capital projects and expenditures related to growth initiatives. Proceeds from the sale of property, plant and equipment were \$5.0 million in 2023 compared to \$1.6 million in 2022. We paid cash, net of cash acquired, of \$205.1 million and \$250.8 million for purchased businesses in 2023 and 2022, respectively.

Cash Flows From Financing Activities

(\$ in millions)	2023	2022
Net cash provided by financing activities	\$ 35.1	\$ 160.3

In 2023, we received \$2,233.3 million in proceeds and repaid \$2,126.5 million of long-term debt including borrowings and repayments on our revolving credit facility and in 2022, we received \$335.0 million in proceeds and repaid \$159.5 million of long-term debt. See Note 7 to the Consolidated Financial Statements for further discussion of debt borrowings and repayments. Debt issuance costs of \$10.2 million were paid in 2023 compared to \$0.6 million paid in 2022. Cash paid for dividends were \$43.4 million and \$39.2 million in 2023 and 2022, respectively. Cash generated from the exercise of stock options was \$14.6 million and \$30.1 million in 2023 and 2022, respectively. Indirect repurchases of common stock through a net-settlement feature related to statutory minimum tax withholding upon vesting of restricted stock were \$2.6 million in 2023 compared to \$4.0 million in 2022. There were no repurchases from our share repurchase program in 2023 and 2022.

We expect 2024 capital expenditures to be approximately \$140.0 million.

Forward-Looking Statements and Risk Factors

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements may be identified by the use of words like "plan," "expect," "aim," "believe," "project," "anticipate," "intend," "estimate," "will," "should," "could" (including the negative or variations thereof) and other expressions that indicate future events and trends. These plans and expectations are based upon certain underlying assumptions, including those mentioned with the specific statements. Such assumptions are in turn based upon internal estimates and analyses of current market conditions and trends, our plans and strategies, economic conditions and other factors. These plans and expectations and the assumptions underlying them are necessarily subject to risks and uncertainties inherent in projecting future conditions and results. Actual results could differ materially from expectations expressed in the forward-looking statements if one or more of the underlying assumptions and expectations proves to be inaccurate or is unrealized. In addition to the factors described in this report, Item 1A. Risk Factors identifies some of the important factors that could cause our actual results to differ materially from those in any such forward-looking statements. In order to comply with the terms of the safe harbor, we have identified these important factors which could affect our financial performance and could cause our actual results for future periods to differ materially from the anticipated results or other expectations expressed in the forward-looking statements. These factors should be considered, together with any similar risk factors or other cautionary language that may be made elsewhere in this Annual Report on Form 10-K.

The list of important factors in Item 1A. Risk Factors does not necessarily present the risk factors in order of importance. This disclosure, including that under Forward-Looking Statements and Risk Factors, and other forward-looking statements and related disclosures made by us in this report and elsewhere from time to time, represents our best judgment as of the date the information is given. We do not undertake responsibility for updating any of such information, whether as a result of new information, future events, or otherwise, except as required by law. Investors are advised, however, to consult any further public company disclosures (such as in filings with the SEC or in our press releases) on related subjects.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Market Risk

We are exposed to various market risks, including changes in interest rates, foreign currency rates and prices of raw materials. Market risk is the potential loss arising from adverse changes in market rates and prices, such as interest rates and foreign currency exchange rates.

Our financial performance may be negatively affected by unfavorable economic conditions. Recessionary economic conditions may have an adverse impact on our sales volumes, pricing levels and profitability. As domestic and international economic conditions change, trends in discretionary consumer spending also become unpredictable and subject to reductions due to uncertainties about the future. A general reduction in consumer discretionary spending due to a recession in the domestic and international economies, or uncertainties regarding future economic prospects, could have a material adverse effect on our results of operations.

Interest Rate Risk

Exposure to changes in interest rates results primarily from borrowing activities used to fund operations. Committed floating rate credit facilities are used to fund a portion of operations. We believe that probable near-term changes in interest rates would not materially affect financial condition, results of operations or cash flows. The annual impact on interest expense of a one-percentage point interest rate change on the outstanding balance of our variable rate debt, net of interest rate swap derivatives as of December 2, 2023, would have resulted in a change in net income of approximately \$5.3 million or \$0.09 per diluted share.

Foreign Exchange Risk

As a result of being a global enterprise, there is exposure to market risks from changes in foreign currency exchange rates. Our operating results, financial condition and net investment in foreign subsidiaries are subject to both currency translation and currency transaction risk. Approximately 56 percent of net revenue was generated outside of the United States in 2023. Principal foreign currency exposures relate to the Euro, Chinese renminbi, British pound sterling, Egyptian pound, Turkish lira, Brazilian real, Canadian dollar, Australian dollar and Mexican peso.

We enter into cross border transactions through importing and exporting goods to and from different countries and locations. These transactions generate foreign exchange risk as they create assets, liabilities and cash flows in currencies other than their functional currency. This also applies to services provided and other cross border agreements among subsidiaries. Our objective is to balance, where possible, non-functional currency denominated assets to non-functional currency denominated liabilities to have a natural hedge and minimize foreign exchange impacts.

In the event a natural hedge is not available, we take steps to minimize risks from foreign currency exchange rate fluctuations through normal operating and financing activities and, when deemed appropriate, through the use of derivative instruments. We do not enter into any speculative positions with regard to derivative instruments.

Based on 2023 financial results, a hypothetical one percent change in our cost of sales due to foreign currency rate changes would have resulted in a change in net income attributable to H.B. Fuller of approximately \$9.4 million or \$0.17 per diluted share. Based on 2023 financial results and foreign currency balance sheet positions as of December 2, 2023, a hypothetical overall 10 percent change in the U.S. dollar would have resulted in a change in net income of approximately \$16.7 million or \$0.30 per diluted share.

Raw Materials

The principal raw materials used to manufacture products include resins, polymers, synthetic rubbers, vinyl acetate monomer and plasticizers. We generally avoid sole source supplier arrangements for raw materials. While alternate supplies of most key raw materials are available, unplanned supplier production outages may lead to strained supply-demand situations for several key raw materials such as ethylene and propylene, several polymers and other petroleum derivatives such as waxes.

The purchase of raw materials is our largest expenditure. Our objective is to purchase raw materials that meet both our quality standards and production needs at the lowest total cost. Most raw materials are purchased on the open market or under contracts that limit the frequency but not the magnitude of price increases. In some cases, however, the risk of raw material price changes is managed by strategic sourcing agreements which limit price increases to increases in supplier feedstock costs, while requiring decreases as feedstock costs decline. The leverage of having substitute raw materials approved for use wherever possible is used to minimize the impact of possible price increases. Based on 2023 financial results, a hypothetical one percent change in our raw material costs would have resulted in a change in net income of approximately \$13.3 million or \$0.24 per diluted share.

Recently Issued Accounting Pronouncements

See Note 1 to the Consolidated Financial Statements for information concerning new accounting standards and the impact of the implementation of these standards on our financial statements.

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of H.B. Fuller Company

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of H.B. Fuller Company and subsidiaries (the Company) as of December 2, 2023 and December 3, 2022, the related consolidated statements of income, comprehensive income, total equity and cash flows for each of the three years in the period ended December 2, 2023, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 2, 2023 and December 3, 2022, and the results of its operations and its cash flows for each of the three years in the period ended December 2, 2023, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 2, 2023, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated January 24, 2024, expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the account or disclosure to which it relates.

Valuation of Goodwill for the Construction Adhesives reporting unit

Description of the Matter

At December 2, 2023, the Company had goodwill of approximately \$432.8 million related to the Construction Adhesives reporting unit. As discussed in the notes to the consolidated financial statements, the Company performs goodwill impairment testing on an annual basis as of the beginning of the fourth quarter, and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

Auditing management's goodwill impairment test for the Construction Adhesives reporting unit was complex and judgmental due to the significant estimation required in determining the fair value of the reporting unit. In particular, the Company estimates fair value using the income approach which is sensitive to certain assumptions, such as forecasted revenue and related revenue growth rate, the earnings before interest, taxes, depreciation and amortization (EBITDA) margins rate, and the weighted average cost of capital which are affected by management's business plans and expectations about future market or economic conditions.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design, and tested the operating effectiveness of controls over the Company's goodwill impairment review process, including controls over management's review of the significant assumptions described above.

To test the estimated fair value of the Construction Adhesive reporting unit, we performed audit procedures that included, among others, assessing the valuation methodology used by management and testing the significant assumptions discussed above, as well as the underlying data used by the Company in its analysis. For example, we compared the significant assumptions used by management in the prospective financial information to current industry, market and economic trends as well as other relevant factors. We assessed the reasonableness of the forecasted future revenue growth rate and EBITDA margins rate by comparing the forecasts to historical results. We involved our valuation specialists to assist in our evaluation of the valuation models, methodologies and significant assumptions used by the Company, specifically the weighted average cost of capital.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2019.

Minneapolis, Minnesota
January 24, 2024

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of H.B. Fuller Company

Opinion on Internal Control Over Financial Reporting

We have audited H.B. Fuller Company and subsidiaries' internal control over financial reporting as of December 2, 2023, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, H.B. Fuller Company and subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 3, 2023, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 2, 2023 and December 3, 2022, the related consolidated statements of income, comprehensive income, total equity and cash flows for each of the three years in the period ended December 2, 2023, and the related notes, and our report dated January 24, 2024 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Minneapolis, Minnesota
January 24, 2024

CONSOLIDATED STATEMENTS OF INCOME
H.B. Fuller Company and Subsidiaries
(In thousands, except per share amounts)

	Fiscal Years		
	December 2, 2023	December 3, 2022	November 27, 2021
Net revenue	\$ 3,510,934	\$ 3,749,183	\$ 3,278,031
Cost of sales	(2,502,037)	(2,785,484)	(2,432,709)
Gross profit	1,008,897	963,699	845,322
Selling, general and administrative expenses	(653,760)	(640,981)	(592,710)
Other income, net	9,682	12,952	32,855
Interest expense	(134,602)	(91,521)	(78,092)
Interest income	3,943	7,779	9,476
Income before income taxes and income from equity method investments	234,160	251,928	216,851
Income tax expense	(93,529)	(77,186)	(63,033)
Income from equity method investments	4,357	5,665	7,657
Net income including non-controlling interest	144,988	180,407	161,475
Net income attributable to non-controlling interest	(82)	(94)	(82)
Net income attributable to H.B. Fuller	\$ 144,906	\$ 180,313	\$ 161,393
Earnings per share attributable to H.B. Fuller common stockholders:			
Basic	\$ 2.67	\$ 3.37	\$ 3.05
Diluted	\$ 2.59	\$ 3.26	\$ 2.97
Weighted-average common shares outstanding:			
Basic	54,332	53,580	52,887
Diluted	55,958	55,269	54,315
Dividends declared per common share	\$ 0.805	\$ 0.738	\$ 0.665

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
H.B. Fuller Company and Subsidiaries
(In thousands)

	Fiscal Years		
	December 2, 2023	December 3, 2022	November 27, 2021
Net income including non-controlling interest	\$ 144,988	\$ 180,407	\$ 161,475
Other comprehensive income (loss)			
Foreign currency translation.....	17,322	(131,806)	(26,294)
Defined benefit pension plans adjustment, net of tax.....	792	(15,063)	48,181
Interest rate swaps, net of tax.....	4,472	9,924	15,179
Cash-flow hedges, net of tax.....	-	(3,483)	(4,486)
Net investment hedges, net of tax.....	<u>(14,107)</u>	<u>(40,743)</u>	<u>-</u>
Other comprehensive income (loss)	<u>8,479</u>	<u>(181,171)</u>	<u>32,580</u>
Comprehensive income (loss).....	<u>153,467</u>	<u>(764)</u>	<u>194,055</u>
Less: Comprehensive income attributable to non-controlling interest.....	<u>84</u>	<u>33</u>	<u>50</u>
Comprehensive income (loss) attributable to H.B. Fuller	<u>\$ 153,383</u>	<u>\$ (797)</u>	<u>\$ 194,005</u>

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS
H.B. Fuller Company and Subsidiaries
(In thousands, except share and per share amounts)

	December 2, 2023	December 3, 2022
Assets		
Current assets:		
Cash and cash equivalents.....	\$ 179,453	\$ 79,910
Trade receivables, net.....	577,932	607,365
Inventories.....	442,040	491,781
Other current assets.....	112,678	120,319
Total current assets	1,312,103	1,299,375
Property, plant and equipment, net.....	824,655	733,667
Goodwill.....	1,486,512	1,392,627
Other intangibles, net.....	729,140	702,092
Other assets.....	371,165	335,868
Total assets	\$ 4,723,575	\$ 4,463,629
Liabilities, non-controlling interest and total equity		
Current liabilities:		
Notes payable.....	\$ 1,841	\$ 28,860
Trade payables.....	439,700	460,669
Accrued compensation.....	95,680	108,328
Income taxes payable.....	47,688	18,530
Other accrued expenses.....	107,902	89,345
Total current liabilities	692,811	705,732
Long-term debt, net of current maturities.....	1,836,590	1,736,256
Accrued pension liabilities.....	50,189	52,561
Other liabilities.....	388,072	358,286
Total liabilities	2,967,662	2,852,835
Commitments and contingencies (Note 14)		
Equity:		
H.B. Fuller stockholders' equity:		
Preferred stock (no shares outstanding) Shares authorized – 10,045,900.....	-	-
Common stock, par value \$1.00 per share, Shares authorized – 160,000,000, Shares outstanding – 54,092,987 and 53,676,576 for 2023 and 2022, respectively.....	54,093	53,677
Additional paid-in capital.....	301,485	266,491
Retained earnings.....	1,842,507	1,741,359
Accumulated other comprehensive loss.....	(442,880)	(451,357)
Total H.B. Fuller stockholders' equity.....	1,755,205	1,610,170
Non-controlling interest.....	708	624
Total equity	1,755,913	1,610,794
Total liabilities, non-controlling interest and total equity	\$ 4,723,575	\$ 4,463,629

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF TOTAL EQUITY
H.B. Fuller Company and Subsidiaries
(In thousands)

H.B. Fuller Company Shareholders						
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non- Controlling Interest	Total
Balance at November 28, 2020	\$ 51,907	\$ 157,867	\$ 1,474,406	\$ (302,859)	\$ 541	\$ 1,381,862
Comprehensive income	-	-	161,393	32,612	50	194,055
Dividends	-	-	(35,198)	-	-	(35,198)
Stock option exercises	741	31,584	-	-	-	32,325
Share-based compensation plans						
other, net	181	26,817	-	-	-	26,998
Repurchases of common stock	(51)	(2,631)	-	-	-	(2,682)
Balance at November 27, 2021	\$ 52,778	\$ 213,637	\$ 1,600,601	\$ (270,247)	\$ 591	\$ 1,597,360
Comprehensive income (loss)	-	-	180,313	(181,110)	33	(764)
Dividends	-	-	(39,555)	-	-	(39,555)
Stock option exercises	658	29,464	-	-	-	30,122
Share-based compensation plans						
other, net	296	27,284	-	-	-	27,580
Repurchases of common stock	(55)	(3,894)	-	-	-	(3,949)
Balance at December 3, 2022	\$ 53,677	\$ 266,491	\$ 1,741,359	\$ (451,357)	\$ 624	\$ 1,610,794
Comprehensive income	-	-	144,906	8,477	84	153,467
Dividends	-	-	(43,758)	-	-	(43,758)
Stock option exercises	314	14,304	-	-	-	14,618
Share-based compensation plans						
other, net	140	23,219	-	-	-	23,359
Repurchases of common stock	(38)	(2,529)	-	-	-	(2,567)
Balance at December 2, 2023	\$ 54,093	\$ 301,485	\$ 1,842,507	\$ (442,880)	\$ 708	\$ 1,755,913

CONSOLIDATED STATEMENTS of CASH FLOWS
H.B. Fuller Company and Subsidiaries
(In thousands)

	Fiscal Years		
	December 2, 2023	December 3, 2022	November 27, 2021
Cash flows from operating activities:			
Net income including non-controlling interest	\$ 144,988	\$ 180,407	\$ 161,475
Adjustments to reconcile net income including non-controlling interest to net cash provided by operating activities:			
Depreciation	80,327	72,593	72,106
Amortization	79,514	74,383	71,068
Deferred income taxes	(25,114)	(15,230)	16,192
Income from equity method investments, net of dividends received	1,259	(9)	2,776
Loss (gain) on sale of assets	59	(1,195)	648
Share-based compensation	19,911	24,368	22,366
Pension and other postretirement benefit plan contributions	(4,346)	(3,009)	(3,840)
Pension and other postretirement benefit plan income	(18,591)	(24,021)	(28,662)
Debt issuance cost write-off	2,689	-	-
Loss on fair value adjustment on contingent consideration liabilities	2,893	-	2,300
Change in assets and liabilities, net of effects of acquisitions:			
Trade receivables, net	68,721	(24,753)	(124,849)
Inventories	72,576	(55,772)	(135,351)
Other assets	(7,927)	46,499	(79,097)
Trade payables	(57,752)	(22,629)	176,337
Accrued compensation	(13,836)	1,135	27,741
Other accrued expenses	(3,070)	6,303	1,186
Income taxes payable	41,190	(12,873)	(4,137)
Other liabilities	22,918	4,104	(73,508)
Other	(28,011)	6,213	108,566
Net cash provided by operating activities	378,398	256,514	213,317
Cash flows from investing activities:			
Purchased property, plant and equipment	(119,137)	(129,964)	(96,089)
Purchased businesses, net of cash acquired	(205,093)	(250,807)	(5,445)
Proceeds from sale of property, plant and equipment	5,029	1,556	2,896
Cash received from government grant	-	3,928	5,800
Cash outflow related to government grant	-	-	(1,822)
Net cash used in investing activities	(319,201)	(375,287)	(94,660)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	2,233,300	335,000	-
Repayment of long-term debt	(2,126,450)	(159,500)	(156,500)
Payment of debt issue costs	(10,214)	(600)	-
Net (payment on) proceeds from notes payable	(28,674)	3,455	9,346
Dividends paid	(43,395)	(39,207)	(34,859)
Contingent consideration payment	(1,477)	(5,000)	(1,700)
Proceeds from stock options exercised	14,619	30,122	32,325
Repurchases of common stock	(2,567)	(3,950)	(2,682)
Net cash provided by (used in) financing activities	35,142	160,320	(154,070)
Effect of exchange rate changes on cash and cash equivalents	5,204	(23,423)	(3,335)
Net change in cash and cash equivalents	99,543	18,124	(38,748)
Cash and cash equivalents at beginning of year	79,910	61,786	100,534
Cash and cash equivalents at end of year	\$ 179,453	\$ 79,910	\$ 61,786
Supplemental disclosure of cash flow information:			
Dividends paid with company stock	\$ 363	\$ 348	\$ 339
Cash paid for interest, net of amount capitalized of \$1,769, \$1,518, and \$905 for the years ended December 2, 2023, December 3, 2022 and November 27, 2021, respectively	\$ 136,959	\$ 83,527	\$ 62,753
Cash paid for income taxes, net of refunds	\$ 71,261	\$ 73,449	\$ 72,955

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

H.B. Fuller Company and Subsidiaries

(In thousands, except share and per share amounts)

Note 1: Nature of Business and Summary of Significant Accounting Policies

Nature of Business

H.B. Fuller Company and our subsidiaries formulate, manufacture and market specialty adhesives, sealants, coatings, polymers, tapes, encapsulants, additives and other specialty chemical products globally, with sales operations in 35 countries in North America, Europe, Latin America, Asia Pacific, India, the Middle East and Africa.

We have three reportable segments: Hygiene, Health and Consumable Adhesives, Engineering Adhesives and Construction Adhesives. In 2023, as a percentage of total net revenue by operating segment, Hygiene, Health and Consumable Adhesives accounted for 46 percent, Engineering Adhesives 41 percent and Construction Adhesives 13 percent.

Our Hygiene, Health and Consumable Adhesives operating segment produces and supplies a full range of specialty industrial adhesives such as thermoplastic, thermoset, reactive, water-based and solvent-based products for applications in various markets, including packaging (food and beverage containers, flexible packaging, consumer goods, package integrity and re-enforcement, and non-durable goods), converting (corrugation, folding carton, tape and label, paper converting, envelopes, books, multi-wall bags, sacks, and tissue and towel), nonwoven and hygiene (disposable diapers, feminine care and medical garments) and health and beauty.

Our Engineering Adhesives operating segment produces and supplies high performance industrial adhesives such as reactive, light cure, two-part liquids, polyurethane, silicone, film and fast cure products to the durable assembly (appliances and filters), performance wood (windows, doors and wood flooring) and textile (footwear and sportswear), transportation, electronics, clean energy, aerospace and defense, appliance, heavy machinery and insulating glass markets.

Our Construction Adhesives operating segment includes products used for tile setting (adhesives, grouts, mortars, sealers and levelers), the commercial roofing industry (pressure-sensitive adhesives, tapes and sealants) and heating, ventilation and air conditioning and insulation applications (duct sealants, weather barriers and fungicidal coatings and block fillers). This operating segment also includes caulks and sealants for the consumer market and professional trade, sold through retailers, primarily in Australia.

Principles of Consolidation

The Consolidated Financial Statements include the accounts of H.B. Fuller Company and its wholly-owned and majority-owned subsidiaries. All significant intercompany transactions and accounts have been eliminated. Investments in affiliated companies in which we exercise significant influence, but which we do not control, are accounted for in the Consolidated Financial Statements under the equity method of accounting. As such, consolidated net income includes our equity portion in current earnings of such companies, after elimination of intercompany profits. Investments in which we do not exercise significant influence (generally less than a 20 percent ownership interest) are accounted for using the measurement alternative.

Our 50 percent ownership in Sekisui-Fuller Company, Ltd., our Japan joint venture, is accounted for under the equity method of accounting as we do not exercise control over the investee. In fiscal years 2023, 2022 and 2021, this equity method investment was not significant as defined in Regulation S-X under the Securities Exchange Act of 1934. As such, financial information as of December 2, 2023, December 3, 2022, and November 27, 2021 for Sekisui-Fuller Company, Ltd. is not required.

Our fiscal year ends on the Saturday closest to November 30. Fiscal year-end dates were December 2, 2023, December 3, 2022, and November 27, 2021 for 2023, 2022 and 2021, respectively. Every five or six years we have a 53rd week in our fiscal year. 2022 was a 53-week year.

Use of Estimates

Preparation of the Consolidated Financial Statements in conformity with U.S. generally accepted accounting principles (“U.S. GAAP”) requires us to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue Recognition

We sell a variety of adhesives, sealants and other specialty chemical products to a diverse customer base. The vast majority of our arrangements contain a single performance obligation to transfer manufactured goods to the customer as governed by an individual purchase order.

We recognize revenue at the amount of consideration to which we expect to be entitled in exchange for transferring the promised goods to the customer. The transaction price includes an estimation of any variable amounts of consideration to which we will be entitled. The most common forms of variable consideration within our arrangements are customer rebates, which are recorded as a reduction to revenue at the time of the initial sale using the expected value method. The expected value method is the sum of probability-weighted amounts in a range of possible consideration amounts and is based on a consideration of historical, current and forecast information. Changes in estimates are updated each reporting period. There are no material instances where variable consideration is constrained and not recorded at the initial time of sale. Product returns are recorded as a reduction to revenue based on historical experience and anticipated sales returns that occur in the normal course of business. We primarily have assurance-type warranties that do not result in separate performance obligations. We have elected to present revenue net of sales and other similar taxes.

We recognize revenue when control of goods is transferred to the customer. For the vast majority of our arrangements, control transfers at a point in time either upon shipment or upon delivery of the goods to the customer. The timing of transfer of control is determined considering the timing of the transfer of legal title, physical possession, and risks and rewards of goods to the customer.

We record shipping and handling revenue in net revenue and outbound shipping and handling costs in cost of goods sold. The majority of our shipping and handling activities are performed prior to transfer of control of the goods to the customer. For those arrangements where we provide shipping and handling services after control of the goods has transferred to the customer, we have elected the practical expedient allowed under Financial Accounting Standards Board (“FASB”) Accounting Standard Codification (“ASC”) Topic 606 to account for these activities as a fulfillment cost rather than as a separate performance obligation.

Provisions for sales returns are estimated based on historical experience and are adjusted for known returns, if material. Customer incentive programs (primarily volume purchase rebates) and arrangements such as cooperative advertising, slotting fees and buy-downs are recorded as a reduction of net revenue in accordance with ASC 606. Customer incentives recorded in the Consolidated Statements of Income as a reduction of net revenue were \$35,896, \$50,146 and \$33,441 in 2023, 2022 and 2021, respectively.

For certain products, consigned inventory is maintained at customer locations. For this inventory, revenue is recognized in the period that the inventory is consumed. Sales to distributors require a distribution agreement or purchase order. As a normal practice, distributors do not have a right of return.

Cost of Sales

Cost of sales includes raw materials, container costs, direct labor, manufacturing overhead, freight costs and other less significant indirect costs related to the production of our products.

Selling, General and Administrative Expenses

Selling, general and administrative (“SG&A”) expenses include sales and marketing, research and development, technical and customer service, finance, legal, human resources, general management and similar expenses.

Income Taxes

The income tax provision is computed based on income before income from equity method investments included in the Consolidated Statement of Income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Enacted statutory tax rates applicable to future years are applied to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances reduce deferred tax assets when it is not more-likely-than-not that a tax benefit will be realized. See Note 11 for further information.

Acquisition Accounting

As we enter into business combinations, we perform acquisition accounting requirements including the following:

- Identifying the acquirer,
- Determining the acquisition date,
- Recognizing and measuring the identifiable assets acquired and the liabilities assumed, and
- Recognizing and measuring goodwill or a gain from a bargain purchase

We complete valuation procedures and record the resulting fair value of the acquired assets and assumed liabilities based upon the valuation of the business enterprise and the tangible and intangible assets acquired. Enterprise value allocation methodology requires management to make assumptions and apply judgment to estimate the fair value of assets acquired and liabilities assumed. If estimates or assumptions used to complete the enterprise valuation and estimates of the fair value of the acquired assets and assumed liabilities significantly differed from assumptions made, the resulting difference could materially affect the fair value of net assets.

The calculation of the fair value of the tangible assets, including property, plant and equipment, utilizes the cost approach, which computes the cost to replace the asset, less accrued depreciation resulting from physical deterioration, functional obsolescence and external obsolescence. The calculation of the fair value of the identified intangible assets is determined using cash flow models following the income approach or a discounted market-based methodology approach. Significant inputs include estimated revenue growth rates, gross margins, operating expenses and estimated attrition, royalty and discount rates. Goodwill is recorded as the difference in the fair value of the acquired assets and assumed liabilities and the purchase price.

Cash Equivalents

Cash equivalents are highly liquid instruments with an original maturity of three months or less. We review cash and cash equivalent balances on a bank by bank basis to identify book overdrafts. Book overdrafts occur when the amount of outstanding checks exceed the cash deposited at a given bank. Book overdrafts, if any, are included in trade payables in our Consolidated Balance Sheets and in operating activities in our Consolidated Statements of Cash Flows.

Restrictions on Cash

There were no restrictions on cash as of December 2, 2023 or December 3, 2022. There are no contractual or regulatory restrictions on the ability of consolidated and unconsolidated subsidiaries to transfer funds to us, except for typical statutory restrictions which prohibit distributions in excess of net capital or similar tests. The majority of our cash in non-U.S. locations is considered indefinitely reinvested.

Trade Receivables and Allowances

Trade receivables are recorded at the invoiced amount and do not bear interest. Allowances are maintained for doubtful accounts, credits related to pricing or quantities shipped and early payment discounts. The allowance for doubtful accounts includes an estimate of future uncollectible receivables based on the aging of the receivable balance and our collection experience. The allowance also includes specific customer accounts when it is probable that the full amount of the receivable will not be collected. Current expectations of future credit losses using market and industry data are considered in the specific customer accounts. See Note 4 for further information.

Inventories

Inventories are recorded at cost (not in excess of net realizable value) as determined by the weighted-average cost method and are valued at the lower of cost or net realizable value.

Investments

Investments with a value of \$9,334 and \$8,957 represent the cash surrender value of life insurance contracts as of December 2, 2023 and December 3, 2022, respectively. These assets are held to primarily support supplemental pension plans and are recorded in other assets in the Consolidated Balance Sheets. The corresponding gain or loss associated with these contracts is reported in earnings each period as a component of selling, general and administrative expenses.

Equity Investments

Investments in an entity where we own less than 20% of the voting stock of the entity and do not exercise significant influence over operating and financial policies of the entity are accounted for using the measurement alternative at cost less impairment plus or minus observable price changes in orderly transactions. We have a policy in place to review our investments at least annually, to evaluate the accounting method and identify observable price changes that could indicate impairment. If we believe that an impairment exists, it is our policy to calculate the fair value of the investment and recognize as impairment any amount by which the carrying value exceeds the fair value of the investment. We recognized impairment of \$303 for the year ended December 3, 2022 and did not have any impairment of our equity investments for the years ended December 2, 2023 and November 27, 2021. The book value of the equity investments was \$1,362 as of both December 2, 2023 and December 3, 2022.

Property, Plant and Equipment

Property, plant and equipment are carried at cost and depreciated over the useful lives of the assets using the straight-line method. Estimated useful lives range from 20 to 40 years for buildings and improvements, 3 to 20 years for machinery and equipment, and the shorter of the lease or expected life for leasehold improvements. Fully depreciated assets are retained in property and accumulated depreciation accounts until removed from service. Upon disposal, assets and related accumulated depreciation are removed. Upon sale of an asset, the difference between the proceeds and remaining net book value is charged or credited to other income, net on the Consolidated Statements of Income. Expenditures that add value or extend the life of the respective assets are capitalized, while expenditures that are typical recurring repairs and maintenance are expensed as incurred. Interest costs associated with construction and implementation of property, plant and equipment of \$1,769, \$1,518 and \$905 were capitalized in 2023, 2022 and 2021, respectively.

Goodwill

We evaluate our goodwill for impairment annually at the beginning of the fourth quarter or earlier upon the occurrence of substantive unfavorable changes in economic conditions, industry trends, costs, cash flows or ongoing declines in market capitalization. The quantitative impairment test requires judgment, including the identification of reporting units, the assignment of assets, liabilities and goodwill to reporting units, and the determination of fair value of each reporting unit. The impairment test requires the comparison of the fair value of each reporting unit with its carrying amount, including goodwill. In performing the impairment test, we determined the fair value of our reporting units through the income approach by using discounted cash flow ("DCF") analyses. Determining fair value requires the company to make judgments about appropriate discount rates, perpetual growth rates and the amount and timing of expected future cash flows. The cash flows employed in the DCF analysis for each reporting unit are based on the reporting unit's budget, long-term business plan and recent operating performance. Discount rate assumptions are based on an assessment of the risk inherent in the future cash flows of the respective reporting unit and market conditions. If the estimated fair value of a reporting unit exceeds its carrying value, goodwill is considered to not be impaired. If the carrying value exceeds estimated fair value, an impairment charge is recorded for any excess of the carrying value over the estimated fair value. Based on the analysis performed for our fiscal 2023 annual impairment test, there were no indications of impairment for any of our reporting units. See Note 5 for further information.

Intangible Assets

Intangible assets include patents, customer lists, technology, trademarks and other intangible assets acquired from independent parties and are amortized on a straight-line basis with estimated useful lives ranging from 3 to 20 years. The straight-line method of amortization of these assets reflects an appropriate allocation of the costs of the intangible assets to earnings in proportion to the amount of economic benefits obtained in each reporting period.

Impairment of Long-Lived Assets

Our long-lived assets are tested for impairment whenever events or circumstances indicate that a carrying amount of an asset (asset group) may not be recoverable. An impairment loss would be measured and recognized when the carrying amount of an asset (asset group) exceeds the estimated undiscounted future cash flows expected to result from the use of the asset (asset group) and its eventual disposition. The impairment loss to be recorded would be the excess of the asset's carrying value over its fair value. Fair value is generally determined using a DCF analysis or other valuation technique. Costs related to internally developed intangible assets are expensed as incurred.

Foreign Currency Translation

Assets and liabilities of non-U.S. functional currency entities are translated to U.S. dollars at period-end exchange rates, and the resulting gains and losses arising from the translation of those net assets are recorded as a cumulative translation adjustment, a component of accumulated other comprehensive income (loss) in stockholders' equity. Revenues and expenses are translated using average exchange rates during the year. Foreign currency transaction gains and losses are included in other income, net in the Consolidated Statements of Income.

We consider a subsidiary's sales price drivers, currency denomination of sales transactions and inventory purchases to be the primary indicators in determining a foreign subsidiary's functional currency. Our subsidiaries in certain European countries have a functional currency different than their local currency. All other foreign subsidiaries, which are located in North America, Latin America, Europe, India, the Middle East and Africa ("EIMEA") and Asia Pacific, have the same local and functional currency.

Pension and Other Postretirement Benefits

We sponsor defined-benefit pension plans in both the U.S. and non-U.S. entities. Also in the U.S., we sponsor other postretirement plans for health care and life insurance benefits. Expenses and liabilities for the pension plans and other postretirement plans are actuarially calculated. These calculations are based on our assumptions related to the discount rate, expected return on assets, projected salary increases, health care cost trend rates and mortality rates. The discount rate assumption is determined using an actuarial yield curve approach, which results in a discount rate that reflects the characteristics of the plan. The approach identifies a broad population of corporate bonds that meet the quality and size criteria for the particular plan. We use this approach rather than a specific index that has a certain set of bonds that may or may not be representative of the characteristics of our particular plan. Our expected long-term rate of return on U.S. plan assets was based on our target asset allocation assumption of 55 percent equities and 45 percent fixed income. Management, in conjunction with our external financial advisors, determines the expected long-term rate of return on plan assets by considering the expected future returns and volatility levels for each asset class that are based on historical returns and forward-looking observations. The expected long-term rate of return on plan assets assumption used in each non-U.S. plan is determined on a plan-by-plan basis for each local jurisdiction and is based on expected future returns for the investment mix of assets currently in the portfolio for that plan. Management, in conjunction with our external financial advisors, develops expected rates of return for each plan, considers expected long-term returns for each asset category in the plan, reviews expectations for inflation for each local jurisdiction, and estimates the impact of active management of the plan's assets. Note 10 includes disclosure of assumptions employed in these measurements for both the non-U.S. and U.S. plans.

Asset Retirement Obligations

We recognize asset retirement obligations ("ARO") in the period in which we have an existing legal obligation associated with the retirement of a tangible long-lived asset, and the amount can be reasonably estimated. The ARO is recognized at fair value when the liability is incurred. Upon initial recognition of a liability, that cost is capitalized as part of the related long-lived asset and depreciated on a straight-line basis over the remaining estimated useful life of the related asset. We have recognized a liability related to special handling of asbestos related materials in certain facilities for which we have plans or expectation of plans to undertake a major renovation or demolition project that would require the removal of asbestos or have plans or expectation of plans to exit a facility. In addition, we have determined that we have facilities with some level of asbestos that will require abatement action in the future. Once the probability and timeframe of an action are determined, we apply certain assumptions to determine the related liability and asset. These assumptions include the use of inflation rates, the use of credit adjusted risk-free discount rates and the estimation of costs to handle asbestos related materials. The recorded liability is required to be adjusted for changes resulting from the passage of time and/or revisions to the timing or the amount of the original estimate. The asset retirement obligation liability was \$3,147 and \$2,888 at December 2, 2023 and December 3, 2022, respectively.

Environmental Costs

Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations, and which do not contribute to current or future revenue generation, are expensed. Liabilities are recorded when environmental assessments are made, or remedial efforts are probable, and the costs can be reasonably estimated. The timing of these accruals is generally no later than the completion of feasibility studies.

Contingent Consideration Liability

Concurrent with business acquisitions, we enter into agreements that require us to pay the sellers a certain amount based upon a formula related to the entity's financial results. The change in fair value of the contingent consideration liability is recorded in SG&A expenses in the Consolidated Statements of Income.

Share-based Compensation

We have various share-based compensation programs which provide for equity awards, including non-qualified stock options, incentive stock options, restricted stock units, performance awards and deferred compensation. We use the straight-line attribution method to recognize compensation expense associated with share-based awards based on the fair value on the date of grant, net of the estimated forfeiture rate. Expense is recognized over the requisite service period related to each award, which is the period between the grant date and the earlier of the award's stated vesting term or the date the employee is eligible for early retirement based on the terms of the plan. The fair value of stock options is estimated using the Black-Scholes option pricing model. All of our stock compensation expense is recorded in SG&A expenses in the Consolidated Statements of Income. See Note 9 for additional information.

Earnings per Share

Basic earnings per share is calculated by dividing net income attributable to H.B. Fuller by the weighted-average number of common shares outstanding during the applicable period. Diluted earnings per share is based upon the weighted-average number of common and common equivalent shares outstanding during the applicable period. The difference between basic and diluted earnings per share is attributable to share-based compensation awards. We use the treasury stock method to calculate the effect of outstanding awards, which computes total employee proceeds as the sum of (a) the amount the employee must pay upon exercise of the award and (b) the amount of unearned share-based compensation costs attributed to future services. Share-based compensation awards for which total employee proceeds exceed the average market price over the applicable period have an antidilutive effect on earnings per share, and accordingly, are excluded from the calculation of diluted earnings per share. The computations for basic and diluted earnings per share are as follows:

(in thousands, except per share data)	<u>2023</u>	<u>2022</u>	<u>2021</u>
Net income attributable to H.B. Fuller	\$ 144,906	\$ 180,313	\$ 161,393
Weighted-average common shares – basic	54,332	53,580	52,887
Equivalent shares from share-based compensation plans	1,626	1,689	1,428
Weighted-average common and common equivalent shares – diluted	<u>55,958</u>	<u>55,269</u>	<u>54,315</u>
Basic earnings per share	\$ 2.67	\$ 3.37	\$ 3.05
Diluted earnings per share	\$ 2.59	\$ 3.26	\$ 2.97

Share-based compensation awards for 1,089,054, 707,197 and 1,535,503 shares for 2023, 2022 and 2021, respectively, were excluded from the diluted earnings per share calculation because they were antidilutive.

Financial Instruments and Derivatives

As a part of our ongoing operations, we are exposed to market risks such as changes in foreign currency exchange rates and interest rates. To manage these risks, we may enter into derivative transactions pursuant to our established policies.

Our objective is to balance, where possible, non-functional currency denominated assets to non-functional currency denominated liabilities to have a natural hedge and minimize foreign exchange impacts. We minimize risks from foreign currency exchange rate fluctuations through normal operating and financing activities and, when deemed appropriate, through the use of derivative instruments. Derivatives consisted primarily of forward currency contracts used to manage foreign currency denominated assets and liabilities. For derivative instruments outstanding that were not designated as hedges for accounting purposes, the gains and losses related to mark-to-market adjustments were recognized as other income or expense in the income statement during the periods the derivative instruments were outstanding. To manage exposure to currency rate movements on expected cash flows, the company may enter into cross-currency swap agreements.

The company manages interest expense using a mix of fixed and floating rate debt. To manage exposure to interest rate movements and to reduce borrowing costs, the company may enter into interest rate swap agreements.

Changes in the fair values of derivatives are recorded in net earnings or other comprehensive income, based on the type of derivative, and whether the instrument is designated and effective as a hedge transaction. Gains or losses on derivative instruments reported in accumulated other comprehensive income (loss) are reclassified to earnings in the period the hedged item affects earnings. Any ineffectiveness is recognized in earnings in the current period. We maintain master netting arrangements that allow us to net settle contracts with the same counterparties; we do not elect to offset amounts in our Consolidated Balance Sheet. These arrangements generally do not call for collateral. We do not enter into any speculative positions with regard to derivative instruments. See Note 12 for further information regarding our financial instruments.

Purchase of Company Common Stock

Under the Minnesota Business Corporation Act, repurchased stock is included in authorized shares, but is not included in shares outstanding. The excess of the repurchase cost over par value is charged to additional paid-in capital. When additional paid-in capital is exhausted, the excess reduces retained earnings. We indirectly repurchased 113,868, 49,869 and 47,481 shares of common stock in 2023, 2022 and 2021, respectively, through a net-settlement feature in connection with the statutory minimum tax withholding related to vesting of restricted stock.

New Accounting Pronouncements

In December 2023, the FASB issued ASU No. 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*. This ASU requires entities to provide additional information in the rate reconciliation and additional disclosures about income taxes paid. This guidance requires public entities to disclose in their rate reconciliation table additional categories of information about federal, state, and foreign income taxes and to provide more details about the reconciling items in some categories if the items meet a quantitative threshold. Our effective date of this ASU is our fiscal year ending November 28, 2026. We are evaluating the effect that this guidance will have on our Consolidated Financial Statements.

In November 2023, the FASB issued ASU No. 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*. This ASU requires enhanced disclosures regarding significant segment expenses and other segment items. The guidance requires public entities to provide in interim periods all disclosures about a reportable segment's profit or loss and assets that are currently required annually. Our effective date of this ASU is our fiscal year ending November 29, 2025. We are evaluating the effect that this guidance will have on our Consolidated Financial Statements.

In September 2022, the FASB issued ASU No. 2022-04, *Liabilities - Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations*. This ASU requires that a buyer in a supplier finance program disclose sufficient information about the program to allow a user of the financial statements to understand the program's nature, activity during the period, changes from period to period, and potential magnitude. To achieve that objective, the buyer should disclose qualitative and quantitative information about its supplier finance programs. Our effective date of this ASU is our fiscal year ending December 1, 2024. We are evaluating the effect that this guidance will have on our Consolidated Financial Statements.

Recently issued accounting standards or pronouncements not disclosed above have been excluded as they are not relevant to the company.

Note 2: Acquisitions

Sanglier Ltd.

On September 8, 2023, we acquired the assets of Sanglier Ltd. (“Sanglier”) for a base purchase price of 13,339 British pound sterling, or approximately \$16,632 which was funded through existing cash. This includes a holdback amount of 2,100 British pound sterling that will be paid on the 18-month anniversary of the closing date. Sanglier, headquartered in Mansfield, United Kingdom, is a manufacturer and filler of sprayable (aerosol and cannister) industrial adhesives. The acquisition of Sanglier expands our innovation capabilities and product portfolio across the United Kingdom and Europe transforming adhesives applications to enable sprayable delivery providing end users with an opportunity to greatly improve labor efficiency. The acquisition fair value measurement was preliminary as of December 2, 2023 and includes intangible assets of \$10,695 and other net assets of \$5,937. Sanglier is included in our Construction Adhesives operating segment.

Adhezion Biomedical LLC

On June 23, 2023, we acquired Adhezion Biomedical LLC (“Adhezion”) for a base purchase price of \$80,802 which was funded through borrowings on our credit facility. This includes a holdback amount of \$780 that will be paid on the 12-month anniversary of the closing date. The agreement includes a payment of contingent consideration up to \$15,000 following the completion of certain performance goals and conditions. Adhezion, headquartered in Wyomissing, Pennsylvania, is a manufacturer of cyanoacrylate-based healthcare adhesives and infection prevention products. The acquisition of Adhezion positions us for expansion in the healthcare adhesives industry and creates a solid, unique platform from which to scale and innovate in the healthcare adhesives industry. The acquisition fair value measurement was preliminary as of December 2, 2023 and includes intangible assets of \$38,500, goodwill of \$38,389 and other net assets of \$3,913. Goodwill represents expected synergies from combining Adhezion with our existing business. As of December 2, 2023, the amount of goodwill that is deductible for tax purposes is \$25,702. Adhezion is included in our Hygiene, Health and Consumable Adhesives operating segment.

XChem International LLC

On June 12, 2023, we acquired XChem International LLC (“XChem”) for a base purchase price of approximately \$14,591 which was funded through borrowings on our credit facility. This includes a holdback amount of \$1,650 that will be paid on the 18-month anniversary of the closing date. XChem, headquartered in Ras Al-Khaimah, United Arab Emirates, is a manufacturer of adhesives and sealants for construction-related applications. The acquisition of XChem provides our construction adhesives global business with additional manufacturing presence for certain brands outside the U.S. and broadens our construction adhesives portfolio of highly specified applications and diversifies it toward both non-U.S. and infrastructure-oriented markets. The acquisition fair value measurement was preliminary as of December 2, 2023 and includes intangible assets of \$4,400, goodwill of \$4,783 and other net assets of \$5,408. Goodwill represents expected synergies from combining XChem with our existing business. Goodwill is not deductible for tax purposes. XChem is included in our Construction Adhesives operating segment.

Beardow Adams Holdings Ltd.

On May 1, 2023, we acquired Beardow Adams Holdings Ltd. (“Beardow Adams”) for a total purchase price of 80,738 British pound sterling, or approximately \$100,885, which was funded through borrowings on our credit facility. This includes a holdback amount of 8,000 British pound sterling that will be paid on the 18-month anniversary of the closing date. Beardow Adams, based in the United Kingdom, develops and manufactures adhesives, sealants and coatings, principally in the fields of packaging and related applications. The acquisition of Beardow Adams is expected to accelerate profitable growth in many of our core end markets and generate business synergies through better raw material pricing, production optimization and an expanded distribution platform. The acquisition fair value measurement was preliminary as of December 2, 2023 and includes intangible assets of \$37,611, goodwill of \$25,674 and other net assets of \$37,600. Goodwill represents expected synergies from combining Beardow Adams with our existing business. As of December 2, 2023, the amount of goodwill that is deductible for tax purposes is \$2,998. The remaining goodwill is not deductible for tax purposes. Beardow Adams is included in our Hygiene, Health and Consumable Adhesives operating segment.

Aspen Research Corporation

On January 31, 2023, we acquired the assets of Aspen Research Corporation (“Aspen”) for a total purchase price of \$9,761, which was funded through existing cash. This includes a holdback amount of \$500 that will be paid on the 18-month anniversary of the closing date. Aspen, located in Maple Grove, Minnesota, is a contract research organization that develops and manufactures innovative solutions for some of the adhesives used in our insulating glass market. Aspen is known for their superior understanding of materials science, engineering and analytical testing and specializes in custom materials manufacturing for chemicals and adhesives products. The acquisition of Aspen is expected to expand our Engineering Adhesives footprint in North America and strengthen our capabilities in the insulating glass market, in addition to bringing additive continuous flow, process manufacturing capabilities that we plan to leverage. The acquisition fair value measurement was final as of December 2, 2023 and includes intangible assets of \$4,900, goodwill of \$3,832 and other net assets of \$1,029. Goodwill represents expected synergies from combining Aspen with our existing business. Goodwill is deductible for tax purposes. Aspen is included in our Engineering Adhesives operating segment.

Lemtapes Oy

On December 15, 2022, we acquired Lemtapes Oy (“Lemtapes”) for a total purchase price of \$8,922 Euro, or approximately \$9,482 which was funded through existing cash. This includes a holdback amount of 850 Euro that will be paid on the 18-month anniversary of the closing date. Lemtapes, located in Valkeakoski, Finland, is a solutions provider of ecological, innovative tapes and adhesives for the packaging and plywood industries. The acquisition of Lemtapes is expected to reinforce our strategic position in Europe, especially for our adhesives coated solutions products. This acquisition will also accelerate our growth strategy of fast-growing, high margin businesses while adding technology capabilities and strong customer relationships. The acquisition fair value measurement was final as of December 2, 2023 and includes intangible assets of \$5,526, goodwill of \$3,028 and other net assets of \$928. Goodwill represents expected synergies from combining Lemtapes with our existing business. Goodwill is not deductible for tax purposes. Lemtapes is included in our Hygiene, Health and Consumable Adhesives operating segment.

GSSI Sealants

On October 24, 2022, we acquired GSSI Sealants, Inc. (“GSSI”) for a total purchase price of \$7,701, which was funded through existing cash. This includes a holdback amount of \$1,050 that was paid on the 12-month anniversary of the closing date. In addition, we recorded a liability for contingent consideration of \$870, to be paid following the completion of certain performance goals and conditions. GSSI, headquartered in Houston, Texas, is a manufacturer of premier elastomeric butyl rubber sealant tapes. The acquisition of GSSI is expected to support our strategy to expand our Construction Adhesives business selectively via high margin applications. The acquisition fair value measurement was final as of September 2, 2023 and includes intangible assets of \$3,400, goodwill of \$1,123 and other net assets of \$3,178. Goodwill represents expected synergies from combining GSSI with our existing business. Goodwill is not deductible for tax purposes. See Note 13 for further discussion of the fair value of the contingent consideration. GSSI is included in our Construction Adhesives operating segment.

ZKLT Polymer Co.

On August 16, 2022, we acquired ZKLT Polymer Co., Ltd. (“ZKLT”) for a base purchase price of 143,965 Chinese renminbi, or approximately \$21,260, which was funded through existing cash. This includes a holdback of 27,000 Chinese renminbi, or approximately \$3,987, half of which was paid on the 12-month anniversary of the closing date and half to be paid on the 18-month anniversary of the closing date. In addition, we recorded a liability for contingent consideration of 30,000 Chinese renminbi, or approximately \$4,132, which was paid in the fourth quarter of 2023 following the completion of certain performance goals and conditions. ZKLT, headquartered in Chongquin City, China, is a manufacturer of liquid adhesives primarily for the automotive market. The acquisition of ZKLT is expected to add unique technology, strong customer relationships and a strategic manufacturing location to further strengthen our presence in central China. The acquisition fair value measurement was final as of September 2, 2023 and includes intangible assets of \$5,183, goodwill of \$5,992 and other net assets of \$10,085. Goodwill represents expected synergies from combining ZKLT with our existing business. Goodwill is not deductible for tax purposes. See Note 13 for further discussion of the fair value of the contingent consideration. ZKLT is included in our Engineering Adhesives operating segment.

Apollo

On January 26, 2022, we acquired Apollo Chemicals Limited, Apollo Roofing Solutions Limited and Apollo Construction Solutions Limited (collectively, "Apollo") for a total purchase price of 152,714 British pound sterling, or approximately \$205,592, which was funded through borrowings on our credit facility. Apollo, headquartered in Tamworth, UK, is a manufacturer of liquid adhesives, coatings and primers for the roofing, industrial and construction markets. Apollo is expected to enhance our position in key high-value, high-margin markets in the UK and throughout Europe. The acquisition fair value measurement was final as of December 3, 2022 and includes intangible assets of \$76,198, goodwill of \$119,358 and other net assets of \$10,036. Goodwill represents expected synergies from combining Apollo with our existing business. Goodwill is not deductible for tax purposes. The acquisition is included in our Construction Adhesives operating segment.

Fourny NV

On January 11, 2022, we acquired Fourny NV ("Fourny") for a base purchase price of 12,867 Euro, or approximately \$14,627, which was funded through existing cash. The agreement required us to pay an additional holdback amount 18 months following the date of acquisition and during the three months ended September 2, 2023 we paid \$3,060. Fourny, headquartered in Willebroek, Belgium, is a manufacturer of construction adhesives. Fourny is expected to enhance our position in key high-value, high-margin markets in Europe. The acquisition fair value measurement was final as of December 3, 2022 and includes intangible assets of \$10,117, goodwill of \$6,455 and other net assets of \$1,391. Goodwill represents expected synergies from combining Fourny with our existing business. Goodwill is not deductible for tax purposes. Fourny is included in our Construction Adhesives operating segment.

All acquisitions, individually and in the aggregate, are not material and therefore pro forma financial information is not provided.

Note 3: Restructuring Actions

During fiscal year 2023, the Company approved restructuring plans (the "Plans") related to organizational changes and other actions to optimize operations and integrate acquired businesses. The Plans began to be implemented in the second quarter of fiscal year 2023 and are currently expected to be completed during fiscal year 2026, with the majority of the charges recognized and cash payments occurring in fiscal 2023 and 2024. In implementing the Plans, the Company currently expects to incur pre-tax costs of approximately \$39,100 to \$44,100 for severance and related employee costs globally, other restructuring costs related to the streamlining of processes and the payment of anticipated income taxes in certain jurisdictions related to the Plans.

The following table summarizes the pre-tax distribution of charges under these restructuring plans by income statement classification:

	<u>December 2, 2023</u>	<u>December 3, 2022</u>	<u>November 27, 2021</u>
Cost of sales	\$ 15,012	\$ (152)	\$ (188)
Selling, general and administrative	9,575	(297)	975
	<u>\$ 24,587</u>	<u>\$ (449)</u>	<u>\$ 787</u>

The restructuring charges are all recorded in Corporate Unallocated for segment reporting purposes.

A summary of the restructuring liability is presented below:

	<u>Employee- Related</u>	<u>Asset-Related</u>	<u>Other</u>	<u>Total</u>
Balance at November 27, 2021	\$ 1,095	\$ -	\$ -	\$ 1,095
Expense incurred	(449)	-	-	(449)
Non-cash charges	-	-	-	0
Cash payments	(529)	-	-	(529)
Foreign currency translation	(60)	-	-	(60)
Balance at December 3, 2022	\$ 57	\$ -	\$ -	\$ 57
Expense incurred	22,731	1,369	487	24,587
Non-cash charges	-	(1,369)	(453)	(1,822)
Cash payments	(9,802)	-	(34)	(9,836)
Foreign currency translation	(1,263)	-	-	(1,263)
Balance at December 2, 2023	<u>\$ 11,723</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,723</u>

Non-cash charges include accelerated depreciation resulting from the cessation of use of certain long-lived assets, the recording of a provision related to the discontinuance of certain products and lease termination payments. Restructuring liabilities have been classified as a component of other accrued expenses on the Consolidated Balance Sheets.

Note 4: Supplemental Financial Statement Information

Statement of Income Information

Additional details of income statement amounts for 2023, 2022 and 2021 are as follows:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Foreign currency transaction losses, net.....	\$ (11,615)	\$ (12,935)	\$ (5,962)
Gain (loss) on disposal of assets.....	(58)	1,416	(648)
Net periodic pension benefit	20,246	26,787	32,070
Other, net.....	1,109	(2,316)	7,395
Total other income, net.....	<u>\$ 9,682</u>	<u>\$ 12,952</u>	<u>\$ 32,855</u>
Research and development expenses (included in SG&A expenses).....	<u>\$ 48,640</u>	<u>\$ 44,853</u>	<u>\$ 39,344</u>

Balance Sheet Information

Additional details of balance sheet amounts as of December 2, 2023 and December 3, 2022 are as follows:

	<u>2023</u>	<u>2022</u>
<u>Inventories</u>		
Raw materials.....	\$ 206,140	\$ 237,071
Finished goods	235,900	254,710
Total inventories	<u>\$ 442,040</u>	<u>\$ 491,781</u>
<u>Other current assets</u>		
Other receivables.....	\$ 40,760	\$ 36,338
Prepaid income taxes.....	12,327	27,169
Prepaid taxes other than income taxes.....	34,455	29,322
Prepaid expenses.....	25,136	27,490
Total other current assets.....	<u>\$ 112,678</u>	<u>\$ 120,319</u>
<u>Property, plant and equipment</u>		
Land	\$ 91,320	\$ 84,320
Buildings and improvements.....	447,428	405,037
Machinery and equipment.....	1,058,916	957,371
Construction in progress	157,371	133,010
Total, at cost.....	<u>1,755,035</u>	<u>1,579,738</u>
Accumulated depreciation.....	<u>(930,380)</u>	<u>(846,071)</u>
Net property, plant and equipment	<u>\$ 824,655</u>	<u>\$ 733,667</u>
<u>Other assets</u>		
Investments in company owned life insurance.....	\$ 9,334	\$ 8,957
Equity method investments	37,562	42,143
Equity investments	1,362	1,362
Long-term deferred income taxes.....	42,949	39,048
Prepaid pension costs	92,323	86,616
Postretirement other than pension asset	113,431	98,848
Operating lease right-of-use assets.....	47,433	32,440
Other long-term receivables	14,013	9,262
Other long-term assets.....	12,758	17,192
Total other assets.....	<u>\$ 371,165</u>	<u>\$ 335,868</u>
<u>Other accrued expenses</u>		
Taxes other than income taxes	\$ 22,497	\$ 14,642
Miscellaneous services.....	8,319	7,092
Customer rebates.....	17,938	24,915
Interest	5,819	7,498
Product liability.....	175	154
Contingent consideration liability	1,370	1,977
Current operating lease liabilities.....	11,277	9,794
Current obligations of finance leases	16,184	1,541
Accrued expenses.....	24,323	21,732
Total other accrued expenses	<u>\$ 107,902</u>	<u>\$ 89,345</u>
<u>Other liabilities</u>		
Asset retirement obligations.....	\$ 3,147	\$ 2,888
Long-term deferred income taxes.....	176,385	183,190
Long-term income tax liability.....	19,225	22,202
Long-term deferred compensation	9,884	9,957
Postretirement other than pension	1,893	2,021
Noncurrent operating lease liabilities.....	36,879	23,421
Environmental liabilities	2,563	3,064
Net investment hedge liabilities	72,589	54,046
Other long-term liabilities	65,507	57,497
Total other liabilities	<u>\$ 388,072</u>	<u>\$ 358,286</u>

Additional details on the trade receivables allowance for doubtful accounts, credits related to pricing or quantities shipped and early payment discounts for 2023, 2022 and 2021 are as follows:

	2023	2022	2021
Balance at beginning of year	\$ 10,939	\$ 9,935	\$ 12,905
Charged to expenses and other adjustments	1,224	1,794	(546)
Write-offs	(1,522)	(851)	(2,278)
Foreign currency translation effect	439	61	(146)
Balance at end of year	<u>\$ 11,080</u>	<u>\$ 10,939</u>	<u>\$ 9,935</u>

Statement of Comprehensive Income Information

The following tables provides details of total comprehensive income (loss):

	December 2, 2023			
	H.B. Fuller Stockholders			Non-controlling Interest
	Pretax	Tax	Net	Net
Net income attributable to H.B. Fuller and non-controlling interests	-	-	\$ 144,906	\$ 82
Other comprehensive income (loss)				
Foreign currency translation adjustment ¹	\$ 17,320	-	17,320	2
Defined benefit pension plans adjustment ²	1,554	(762)	792	-
Interest rate swap ³	5,932	(1,460)	4,472	-
Net investment hedges ³	(18,555)	4,448	(14,107)	-
Other comprehensive income (loss)	<u>\$ 6,251</u>	<u>\$ 2,226</u>	<u>\$ 8,477</u>	<u>\$ 2</u>
Comprehensive income			<u>\$ 153,383</u>	<u>\$ 84</u>

	December 3, 2022			
	H.B. Fuller Stockholders			Non-controlling Interest
	Pretax	Tax	Net	Net
Net income attributable to H.B. Fuller and non-controlling interests	-	-	\$ 180,313	\$ 94
Other comprehensive income (loss)				
Foreign currency translation adjustment ¹	\$ (131,745)	-	(131,745)	(61)
Defined benefit pension plans adjustment ²	(18,881)	3,818	(15,063)	-
Interest rate swap ³	13,148	(3,224)	9,924	-
Other cash flow hedges ³	(3,536)	53	(3,483)	-
Net investment hedges ³	(54,040)	13,297	(40,743)	-
Other comprehensive income	<u>\$ (195,054)</u>	<u>\$ 13,944</u>	<u>\$ (181,110)</u>	<u>\$ (61)</u>
Comprehensive income			<u>\$ (797)</u>	<u>\$ 33</u>

November 27, 2021

	H.B. Fuller Stockholders			Non-controlling Interest
	Pretax	Tax	Net	Net
	Net income attributable to H.B. Fuller and non-controlling interests.....	-	-	\$ 161,393
Other comprehensive income (loss)				
Foreign currency translation adjustment ¹	\$ (26,262)	-	(26,262)	(32)
Defined benefit pension plans adjustment ²	64,912	(16,731)	48,181	-
Interest rate swap ³	20,109	(4,930)	15,179	-
Other cash flow hedges ³	(4,554)	68	(4,486)	-
Other comprehensive (loss) income	\$ 54,205	\$ (21,593)	\$ 32,612	\$ (32)
Comprehensive income			\$ 194,005	\$ 50

¹ Income taxes are not provided for foreign currency translation relating to indefinite investments in international subsidiaries.

² Loss reclassified from accumulated other comprehensive income (loss) into earnings as part of net periodic cost related to pension and other postretirement benefit plans is reported in cost of sales and SG&A expenses.

³ Loss reclassified from accumulated other comprehensive income (loss) into earnings is reported in other income, net.

Statement of Total Equity Information

Components of accumulated other comprehensive income (loss) are as follows:

	December 2, 2023		
	Total	H.B. Fuller Stockholders	Non-controlling Interests
	Foreign currency translation adjustment	\$ (246,736)	\$ (246,692)
Defined benefit pension plans adjustment, net of taxes of \$66,982	(127,469)	(127,469)	-
Interest rate swap, net of taxes of (\$1,460)	4,472	4,472	-
Net investment hedges, net of taxes of \$17,744	(54,850)	(54,850)	-
Reclassification of AOCI tax effects	(18,341)	(18,341)	-
Total accumulated other comprehensive loss	\$ (442,924)	\$ (442,880)	\$ (44)

	December 3, 2022		
	Total	H.B. Fuller Stockholders	Non-controlling Interests
	Foreign currency translation adjustment	\$ (264,054)	\$ (264,012)
Defined benefit pension plans adjustment, net of taxes of \$67,744	(128,261)	(128,261)	-
Net investment hedges, net of taxes of \$13,297	(40,743)	(40,743)	-
Reclassification of AOCI tax effects	(18,341)	(18,341)	-
Total accumulated other comprehensive loss	\$ (451,399)	\$ (451,357)	\$ (42)

	November 27, 2021		
	Total	H.B. Fuller Stockholders	Non- controlling Interests
Foreign currency translation adjustment	\$ (132,370)	\$ (132,267)	\$ (103)
Defined benefit pension plans adjustment, net of taxes of \$63,925	(113,198)	(113,198)	-
Interest rate swap, net of taxes of \$3,224	(9,924)	(9,924)	-
Cash flow hedges, net of taxes of (\$53)	3,483	3,483	-
Reclassification of AOCI tax effects	(18,341)	(18,341)	-
Total accumulated other comprehensive loss	<u>\$ (270,350)</u>	<u>\$ (270,247)</u>	<u>\$ (103)</u>

Note 5: Goodwill and Other Intangible Assets

Goodwill balances by reportable segment consisted of the following:

	Hygiene, Health and Consumable Adhesives	Engineering Adhesives	Construction Adhesives	Total
As of December 3, 2022	\$ 328,962	\$ 637,910	\$ 425,755	\$ 1,392,627
Acquisitions	67,523	5,983	6,179	79,685
Foreign currency translation effect.....	6,113	7,252	835	14,200
As of December 2, 2023	<u>\$ 402,598</u>	<u>\$ 651,145</u>	<u>\$ 432,769</u>	<u>\$ 1,486,512</u>

We evaluate our goodwill for impairment annually at the beginning of the fourth quarter or earlier upon the occurrence of substantive unfavorable changes in economic conditions, industry trends, costs, cash flows, or ongoing declines in market capitalization. The quantitative impairment test requires judgment, including the identification of reporting units, the assignment of assets, liabilities and goodwill to reporting units, and the determination of fair value of each reporting unit. The impairment test requires the comparison of the fair value of each reporting unit with its carrying amount, including goodwill. In performing the impairment test, we determined the fair value of our reporting units through the income approach by using DCF analyses. Determining fair value requires the company to make judgments about appropriate discount rates, perpetual growth rates and the amount and timing of expected future cash flows. The cash flows employed in the DCF analysis for each reporting unit are based on the reporting unit's budget, long-term business plan and recent operating performance. Discount rate assumptions are based on an assessment of the risk inherent in the future cash flows of the respective reporting unit and market conditions. Based on the analysis performed during the fourth quarter of 2023, there were no indications of impairment for any of our reporting units.

Balances of amortizable identifiable intangible assets, excluding goodwill and other non-amortizable intangible assets, are as follows:

<u>Amortizable Intangible Assets</u>	<u>Purchased Technology and Patents</u>	<u>Customer Relationships</u>	<u>Tradename</u>	<u>All Other</u>	<u>Total</u>
As of December 2, 2023					
Original cost.....	\$ 144,763	\$ 986,470	\$ 58,484	\$ 10,911	\$ 1,200,628
Accumulated amortization	(59,631)	(382,220)	(23,099)	(7,012)	(471,962)
Net identifiable intangibles	<u>\$ 85,132</u>	<u>\$ 604,250</u>	<u>\$ 35,385</u>	<u>\$ 3,899</u>	<u>\$ 728,666</u>
Weighted-average useful lives (in years)	<u>13</u>	<u>16</u>	<u>13</u>	<u>13</u>	<u>16</u>
As of December 3, 2022					
Original cost.....	\$ 118,727	\$ 1,004,008	\$ 50,324	\$ 11,053	\$ 1,184,112
Accumulated amortization	(66,433)	(388,394)	(21,401)	(6,251)	(482,479)
Net identifiable intangibles	<u>\$ 52,294</u>	<u>\$ 615,614</u>	<u>\$ 28,923</u>	<u>\$ 4,802</u>	<u>\$ 701,633</u>
Weighted-average useful lives (in years)	<u>13</u>	<u>17</u>	<u>13</u>	<u>13</u>	<u>16</u>

Amortization expense with respect to amortizable intangible assets was \$79,514, \$74,383 and \$71,068 in 2023, 2022 and 2021, respectively.

Estimated aggregate amortization expense based on the current carrying value of amortizable intangible assets for the next five fiscal years are as follows:

<u>Fiscal Year</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>Thereafter</u>
Amortization Expense.....	\$77,288	\$77,678	\$70,957	\$67,652	\$67,356	\$367,735

The above amortization expense forecast is an estimate. Actual amounts may change from such estimated amounts due to fluctuations in foreign currency exchange rates, additional intangible asset acquisitions, potential impairment, accelerated amortization or other events.

Non-amortizable intangible assets as of December 2, 2023 and December 3, 2022 were \$474 and \$459, respectively, and relate to trademarks and trade names. The change in non-amortizable assets in 2023 compared to 2022 was due to changes in foreign currency exchange rates.

Note 6: Leases

As a lessee, the company leases office, manufacturing and warehouse space, and equipment. Certain lease agreements include rental payments adjusted annually based on changes in an inflation index. Our leases do not contain material residual value guarantees or material restrictive covenants. Lease expense is recognized on a straight-line basis over the lease term. We determine if an arrangement is a lease upon inception. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The right to control the use of an asset includes the right to obtain substantially all of the economic benefits of the underlying asset and the right to direct how and for what purpose the asset is used.

Operating lease and finance lease right-of-use assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. The discount rate used to calculate present value is the company's incremental borrowing rate. We determine the incremental borrowing rate for each lease based primarily on its lease term and the economic environment of the applicable country or region.

Certain leases include one or more options to renew, with terms that can extend the lease term up to five years. We include options to renew the lease as part of the right-of-use lease asset and liability when it is reasonably certain we will exercise the option. In addition, certain leases contain termination options with an associated penalty. In general, the company is not reasonably certain to exercise such options.

For the measurement and classification of lease agreements, we group lease and non-lease components into a single lease component for all underlying asset classes. Variable lease payments primarily include payments for non-lease components, such as maintenance costs, payments for leased assets used beyond their non-cancelable lease term as adjusted for contractual options to terminate or renew, and payments for non-components such as sales tax. Certain leases contain immaterial variable lease payments based on usage.

The components of lease expense are as follows:

	<u>December 2, 2023</u>	<u>December 3, 2022</u>
Operating lease cost	\$ 13,883	\$ 12,026
Finance lease cost:		
Amortization of assets	2,045	1,535
Interest on lease liabilities	1,077	261
Variable lease cost	8,554	6,481
Total net lease cost	<u>\$ 25,559</u>	<u>\$ 20,303</u>

Supplemental balance sheet information related to leases is as follows:

	<u>Location on Balance Sheet</u>	<u>December 2, 2023</u>	<u>December 3, 2022</u>
Operating leases:			
Operating lease right-of-use assets	Other assets	\$ 47,433	\$ 32,440
Current operating lease liabilities.....	Other accrued expenses	11,277	9,794
Noncurrent operating lease liabilities.....	Other liabilities	36,879	23,421
Total operating lease liabilities.....		<u>\$ 48,156</u>	<u>\$ 33,215</u>
Finance leases:			
Equipment right-of-use assets	Property, plant and equipment.....	\$ 11,681	\$ 11,150
Building right-of-use asset	Property, plant and equipment.....	\$ 14,230	\$ -
Current obligations of finance leases	Other accrued expenses	\$ 16,184	\$ 1,541
Finance leases, net of current obligations.....	Other liabilities	6,534	7,507
Total finance lease liabilities.....		<u>\$ 22,718</u>	<u>\$ 9,048</u>

As of December 2, 2023, the weighted average remaining lease term is 9.4 years and the weighted average discount rate is 4.2% for the company's operating lease agreements. The weighted average remaining lease term is 4.0 years and the weighted average discount rate is 5.9% for the company's finance lease agreements.

Supplemental information related to leases is as follows:

	<u>December 2, 2023</u>	<u>December 3, 2022</u>
Cash paid amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases.....	\$ 11,745	\$ 15,209
Operating cash flows from finance leases	1,077	261
Financing cash flows from finance leases	268	607
Non-cash investing and financing activities - additions to right-of-use assets obtained from:		
New operating lease liabilities	\$ 26,687	\$ 15,442
New finance lease liabilities.....	15,015	1,258

Maturities of lease liabilities are as follows:

Fiscal Year	December 2, 2023	
	Finance Leases	Operating Leases
2024	\$ 16,535	\$ 12,993
2025	1,618	9,452
2026	1,441	7,085
2027	1,151	5,126
2028	684	3,505
2029 and beyond	2,376	18,869
Total	23,805	57,031
Less: amounts representing interest	(1,087)	(8,875)
Present value of future minimum payments	22,718	48,156
Less: current obligations	(16,184)	(11,277)
Noncurrent lease liabilities	<u>\$ 6,534</u>	<u>\$ 36,879</u>

Note 7: Notes Payable, Long-Term Debt and Lines of Credit

Notes Payable

Notes payable were \$1,841 and \$28,860 at December 2, 2023 and December 3, 2022, respectively. This amount primarily represents various foreign subsidiaries' other short-term borrowings that were not part of committed lines. The weighted-average interest rates on short-term borrowings outstanding at December 2, 2023 were approximately 10.75 percent, 16.2 percent in 2022 and 8.1 percent in 2021. Fair values of these short-term obligations approximate their carrying values due to their short maturity. There were no funds drawn from the short-term committed lines at December 2, 2023.

Long-Term Debt

Long-Term Debt	Weighted-Average Interest Rate at December 2, 2023	Fiscal Year Maturity Date	Balance at December 2, 2023	Balance at December 3, 2022
Revolving credit facility.....	6.95%	2028	\$ -	\$ 175,500
Term Loan A ¹	6.95%	2028	487,500	-
Term Loan B ²	7.60%	2030	796,000	1,001,150
Public Notes ³	4.00%	2027	300,000	300,000
Public Notes ⁴	4.25%	2028	300,000	300,000
Other, including debt issuance cost and discount.....			(46,910)	(40,394)
Total debt			\$ 1,836,590	\$ 1,736,256
Less: current maturities.....			-	-
Total long-term debt, excluding current maturities			\$ 1,836,590	\$ 1,736,256

¹ Term Loan A, due on February 15, 2028, \$500,000 variable rate at the Secured Overnight Financing Rate ("SOFR") plus an adjustment of 0.10 percent and an interest rate spread of 1.50 percent based on a leverage grid (6.95 percent at December 2, 2023).

² Term Loan B, due on February 15, 2030, \$800,000 variable rate at the SOFR plus 2.25 percent with a SOFR floor of 0.50 percent (7.60 percent at December 2, 2023).

³ Public Notes, due February 15, 2027, \$300,000 4.00 percent fixed.

⁴ Public Notes, due October 15, 2028, \$300,000 4.25 percent fixed; swapped to a floating rate as detailed below.

On February 15, 2023, we entered into a credit agreement with a consortium of financial institutions ("Second Amended and Restated Credit Agreement") which replaces our existing revolving credit agreement under the amended and restated revolving credit agreement dated October 20, 2020 and also replaces our secured term loan credit agreement dated October 20, 2017. The Second Amended and Restated Credit Agreement provides for a new senior secured term loan A facility in an aggregate principal amount of \$500,000 ("Term Loan A"), a new senior secured term loan B facility in an aggregate principal amount of \$800,000 ("Term Loan B") and amendments to and extension of our existing senior secured revolving credit facility with an aggregate commitment in the amount of \$700,000 ("Revolving Credit Facility"). A portion of the proceeds of the combined facilities, (the "Credit Facilities") was used to pay off the existing term loan and revolver. Additionally, we wrote off \$2,689 of debt issuance costs related to this payoff which was recorded in interest expense for the year ended December 2, 2023. The Credit Facilities will generally be used to finance working capital needs and acquisitions, and for general corporate purposes. All of our obligations under the Credit Facilities are secured by a first-lien security interest in substantially all personal property and material real property of the Company and its material U.S. subsidiaries, and are guaranteed by all of the Company's material U.S. subsidiaries.

Term Loans

Interest on Term Loan A is payable at a rate of SOFR plus an adjustment of 0.10 percent and an interest rate spread of 1.50 percent (6.95 percent at December 2, 2023). The interest rate spread is based on a secured leverage grid. Term Loan A matures on February 15, 2028. At December 2, 2023, a balance of \$487,500 was outstanding on the Term Loan A. On August 16, 2023, we amended the Term Loan B agreement to an interest rate of SOFR plus an interest rate spread of 2.25 percent with a SOFR floor of 0.50 percent (7.60 percent at December 2, 2023). Term Loan B matures on February 15, 2030. At December 2, 2023, a balance of \$796,000 was outstanding on the Term Loan B.

On January 12, 2023, we entered into an interest rate swap agreement to convert \$400,000 of our variable rate 1-month LIBOR rate debt to a fixed rate of 3.6895 percent. On February 28, 2023, after entering into the Second Amended and Restated Credit Agreement, we amended the interest rate swap agreement to 1-month SOFR and a fixed rate of 3.7260 in accordance with the practical expedients included in ASC 848, *Reference Rate Reform*. See Note 12 for further discussion of this interest rate swap.

On March 16, 2023, we entered into an interest rate swap agreement to convert \$300,000 of our 1-month SOFR rate debt to a fixed rate of 3.7210 percent and to convert \$100,000 of our 1-month SOFR rate debt to a fixed rate of 3.8990 percent. See Note 12 for further discussion of this interest rate swap.

Public Notes

On February 14, 2017, we issued \$300,000 aggregate principal of 10-year unsecured public notes (“10-year Public Notes”) due February 15, 2027 with a fixed coupon of 4.00 percent. Proceeds from this debt issuance were used to repay \$138,000 outstanding under the revolving credit facility at that time and prepay \$158,750 of our Term Loan A under the credit agreement at that time. On February 14, 2017, we entered into an interest rate swap agreement to convert \$150,000 of the 10-year Public Notes to a variable interest rate of 1-month LIBOR plus 1.86 percent and on May 1, 2020, we terminated the swap. See Note 12 for further discussion of this interest rate swap.

On October 20, 2020, we issued \$300,000 aggregate principal of 8-year unsecured public notes (“8-year Public Notes”) due October 15, 2028 with a fixed coupon of 4.25 percent. Proceeds from this debt issuance were used to prepay \$300,000 of our Term Loan B at that time. On February 12, 2021, we entered into interest rate swap agreements to convert our 8-year Public Notes to a variable interest rate of 1-month LIBOR plus 3.28 percent. See Note 12 for further discussion of these interest rate swaps.

The Public Notes are senior unsecured obligations of the company and will rank equally with the company’s other unsecured and unsubordinated debt from time to time outstanding.

Fair Value of Long-Term Debt

Long-term debt had an estimated fair value of \$1,785,199 and \$1,713,257 as of December 2, 2023 and December 3, 2022, respectively. The fair value of long-term debt is based on quoted market prices for the same or similar issues or on the current rates offered for debt of similar maturities. The estimated fair value of these long-term obligations is not necessarily indicative of the amount that would be realized in a current market exchange.

Long-term Debt Maturities

Maturities of long-term debt for the next five fiscal years are as follows:

<u>Fiscal Year</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>Thereafter</u>
Long-term debt obligations	\$ -	\$ -	\$ -	\$ 300,000	\$ 787,500	\$ 796,000

Revolving Credit Facility

Interest on the Revolving Credit Facility is payable at SOFR plus an adjustment of 0.10 percent and an interest rate spread of 1.50 percent (6.95 percent at December 2, 2023). A facility fee of 20 basis points of the unused commitment under the Revolving Credit Facility is payable quarterly. The interest rate spread and the facility fee are based on a secured leverage grid. At December 2, 2023, there was no balance outstanding on the Revolving Credit Facility. The Revolving Credit Facility matures on February 15, 2028.

As of December 2, 2023, amounts related to our revolving credit facility was as follows:

	<u>Committed</u>	<u>Drawn</u>	<u>Unused</u>
Revolving credit facility.....	\$ 700,000	\$ -	\$ 690,032

The secured, multi-currency revolving credit facility can be drawn upon for general corporate purposes up to a maximum of \$700,000, less issued letters of credit. At December 2, 2023, letters of credit reduced the available amount under the revolving credit facility by \$9,968.

Covenants and Other

Under the Second Amended and Restated Credit Agreement, the Revolving Credit Facility and Term Loan A are subject to certain covenants and restrictions. For these facilities, we are required to maintain a secured leverage ratio, as defined in the agreement, no greater than 4.75 to 1.00 for our fiscal quarters ending on or prior to June 1, 2024 and then 4.50 to 1.00 thereafter. We are also required to maintain an interest coverage ratio of not less than 2.00 to 1.00.

Restrictive covenants include, but are not limited to, limitations on secured and unsecured borrowings, interest coverage, intercompany transfers and investments, third party investments, dispositions of assets, leases, liens, dividends and distributions, and contains a maximum total debt to trailing twelve months EBITDA requirement. Certain covenants become less restrictive after meeting leverage or other financial ratios. In addition, we cannot be a member of any consolidated group as defined for income tax purposes other than with our subsidiaries.

We are subject to mandatory prepayments in the first quarter of each fiscal year equal to 50 percent of Excess Cash Flow, as defined in the Second Amended and Restated Credit Agreement, of the prior fiscal year less any voluntary prepayments made during that fiscal year. The Excess Cash Flow Percentage shall be reduced to 25 percent when our Secured Leverage Ratio is below 4.25:1.00 and to 0 percent when our Secured Leverage Ratio is below 3.75:1.00.

The principal balance of the Term Loan B loans will be repayable in equal quarterly installments in an aggregate annual amount equal to 1 percent of the original principal amount thereof, with the balance due at maturity on February 15, 2030. The principal balance of the Term Loan A loans will be repayable in quarterly installments as follows: (i) with respect to the first eight fiscal quarters ended after the effective date of the Second Amended and Restated Credit Agreement, 1.25 percent of the aggregate principal amount of the original principal of the Term Loan A loans, (ii) with respect to the eight fiscal quarters ended after the end of the period set forth in the preceding clause (i), 1.875 percent of the aggregate principal amount of the original principal amount of the Term Loan A loans, and (iii) thereafter, 2.5 percent of the original principal amount of the Term Loan A loans, with the balance due at maturity on February 15, 2028.

The Indenture under which the Public Notes have been issued contains covenants imposing certain limitations on the ability of the company to incur liens or enter into sales and leaseback transactions. It also provides for customary events of default (subject in certain cases to customary grace and cure periods), which include among other things nonpayment, breach of covenants in the Indenture and certain events of bankruptcy and insolvency. If an event of default occurs and is continuing with respect to the Public Notes, the Trustee or holders of at least 25% in principal amount outstanding of the Public Notes may declare the principal and the accrued and unpaid interest, if any, on all of the outstanding Public Notes to be due and payable. These covenants and events of default are subject to a number of important qualifications, limitations and exceptions that are described in the Indenture.

Note 8: Stockholders' Equity

Preferred Stock

The Board of Directors is authorized to issue up to 10,045,900 shares of preferred stock that may be issued in one or more series and with such stated value and terms as the Board of Directors may determine.

Common Stock

There were 160,000,000 shares of common stock with a par value of \$1.00 authorized and 54,092,987 and 53,676,576 shares issued and outstanding at December 2, 2023 and December 3, 2022, respectively.

On April 7, 2022, the Board of Directors authorized a new share repurchase program of up to \$300,000 of our outstanding common shares for a period of up to five years. Under the program, we are authorized to repurchase shares for cash on the open market, from time to time, in privately negotiated transactions or block transactions, or through an accelerated repurchase agreement. The timing of such repurchases is dependent on price, market conditions and applicable regulatory requirements. Upon repurchase of the shares, we reduce our common stock for the par value of the shares with the excess being applied against additional paid-in capital. This authorization replaces the April 6, 2017 authorization to repurchase shares. We did not repurchase any shares during 2023, 2022 and 2021 under our share repurchase program. Up to \$300,000 of our outstanding common shares may still be repurchased under the current share repurchase program.

Common Shares Outstanding	2023	2022	2021
Beginning balance.....	<u>53,676,576</u>	<u>52,777,753</u>	<u>51,906,663</u>
Stock options exercised.....	314,832	657,789	740,731
Deferred compensation paid.....	102,108	118,429	19,895
Restricted units vested.....	113,339	172,474	157,945
Shares withheld for taxes	<u>(113,868)</u>	<u>(49,869)</u>	<u>(47,481)</u>
Ending balance.....	<u><u>54,092,987</u></u>	<u><u>53,676,576</u></u>	<u><u>52,777,753</u></u>

Note 9: Accounting for Share-Based Compensation

Overview

We have various share-based compensation programs, which provide for equity awards including non-qualified stock options, incentive stock options, restricted stock units, performance awards and deferred compensation. These equity awards fall under several plans and are described below.

Share-based Compensation Plans

We currently grant stock options and restricted stock units under equity compensation and deferred compensation plans.

Stock options are granted to officers and key employees at prices not less than the fair market value at the date of grant. Non-qualified stock options are generally exercisable beginning one year from the date of grant in cumulative yearly amounts of 33.3 percent. Incentive stock options are based on certain performance-based criteria and are generally exercisable at a stated date when the performance criteria is measured. Stock options generally have a contractual term of 10 years. Options exercised represent newly issued shares.

Restricted stock awards are nonvested stock-based awards that include grants of restricted stock units. Restricted stock awards are independent of option grants and are subject to forfeiture if employment terminates prior to the release of the restrictions. Time-based restricted stock awards generally vest beginning one year from the date of grant or 33.3 percent per year for three years, depending on the grant. Performance-based restricted stock awards vest three years from the date of grant. During the vesting period, ownership of the shares cannot be transferred.

Restricted stock units have dividend equivalent rights equal to the cash dividend paid on restricted stock shares. However, restricted stock units do not have voting rights of common stock and are not considered issued and outstanding upon grant. Restricted stock units become newly issued shares when vested. The dividend equivalent rights for restricted stock units are forfeitable.

We expense the cost, which is the grant date fair market value, of the restricted stock units ratably over the period during which the restrictions lapse. The grant date fair value is our closing stock price on the date of grant.

We are required to recognize compensation expense when an employee is eligible to retire. We consider employees eligible to retire at age 55 and after 10 years of service. Awards granted to retirement-eligible employees are forfeited if the retirement-eligible employees retire prior to 180 days after the grant. Accordingly, the related compensation expense is recognized during the 180 day period for awards granted to retirement-eligible employees or over the period from the grant date to the date retirement eligibility is achieved, if less than the stated vesting period.

2020 Master Incentive Plan

This plan allows for granting of awards to any employee, officer, non-employee director, consultant, independent contractor or advisor providing services to us or any of our affiliates, or any person to whom an offer of employment or engagement with us or any of our affiliates has been made. The plan permits granting of (a) stock options; (b) stock appreciation rights; (c) restricted stock and restricted stock units; (d) performance awards; (e) dividend equivalents; (f) other awards based on our common stock, including shares for amounts employees or non-employee directors deferred under the deferred compensation plans. There were 3,413,652 common shares available for grant as of December 2, 2023.

2018 Master Incentive Plan

This plan allows for granting of awards to employees. The plan permits granting of (a) stock options; (b) stock appreciation rights; (c) restricted stock and restricted stock units; (d) performance awards; (e) dividend equivalents; (f) other awards based on our common stock, including shares for amounts employees deferred under the Key Employee Deferred Compensation Plan.

Year 2016 Master Incentive Plan

This plan allows for granting of awards to employees. The plan permits granting of (a) stock options; (b) stock appreciation rights; (c) restricted stock awards; (d) performance awards; (e) dividend equivalents; and (f) other awards based on our common stock, including shares for amounts employees deferred under the Key Employee Deferred Compensation Plan.

2009 Directors' Stock Incentive Plan

This plan permits granting of (a) shares for amounts non-employee directors defer under the Directors' Deferred Compensation Plan and (b) discretionary grants of restricted stock, stock options, stock appreciation rights, performance awards and other stock awards.

Directors' Deferred Compensation Plan

This plan allows non-employee directors to defer all or a portion of their retainer and meeting fees in a number of investment choices, including units representing shares of our common stock. We provide a 10 percent match on deferred compensation invested in these units. These units are required to be paid out in our common stock.

Key Employee Deferred Compensation Plan

This plan allows key employees to defer a portion of their eligible compensation in a number of investment choices, including units representing shares of company common stock. We provide a 10 percent match on deferred compensation invested in these units.

Grant-Date Fair Value

We use the Black-Scholes option-pricing model to calculate the grant-date fair value of stock option awards. The fair value of options granted during 2023, 2022 and 2021 were calculated using the following assumptions:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Expected life (in years)	5.00	5.00	5.00
Weighted-average expected volatility	35.28%	33.35%	32.50%
Expected volatility range.....	35.09-35.69%	33.33-34.34%	32.48% - 32.94%
Risk-free interest rate	3.48-4.72%	1.53-4.06%	0.39% - 1.20%
Weighted-average expected dividend	1.20%	0.95%	1.26%
Expected dividend yield range	1.13-1.22%	0.94-1.23%	0.92% - 1.27%
Weighted-average fair value of grants	22.41	20.91	13.29

Expected life – We use historical employee exercise and option expiration data to estimate the expected life assumption for the Black-Scholes grant-date valuation. We believe that this historical data is currently the best estimate of the expected term of a new option. We use a weighted-average expected life for all awards.

Expected volatility – Volatility is calculated using our stock's historical volatility for the same period of time as the expected life. We have no reason to believe that its future volatility will differ from the past.

Risk-free interest rate – The rate is based on the U.S. Treasury yield curve in effect at the time of the grant for the same period of time as the expected life.

Expected dividend yield – The calculation is based on the total expected annual dividend payout divided by the closing stock price on the date of grant.

Expense

We use the straight-line attribution method to recognize share-based compensation expense for option awards and restricted stock units with graded and cliff vesting. Incentive stock options and performance awards are based on certain performance-based metrics and the expense is adjusted quarterly, based on our projections of the achievement of those metrics. The amount of share-based compensation expense recognized during a period is based on the value of the portion of the awards that are ultimately expected to vest. The expense is recognized over the requisite service period, which for us is the period between the grant date and the earlier of the award's stated vesting term or the date the employee is eligible for early vesting based on the terms of the plans.

Total share-based compensation expense was \$19,911, \$24,368 and \$22,366 for 2023, 2022 and 2021, respectively. All share-based compensation was recorded as SG&A expense.

As of December 2, 2023, \$7,526 of unrecognized compensation costs related to unvested stock option awards is expected to be recognized over a weighted-average period of 0.9 years. Unrecognized compensation costs related to unvested restricted stock units was \$8,940 which is expected to be recognized over a weighted-average period of 0.68 years.

Stock Option Activity

The stock option activity for the years ended December 2, 2023, December 3, 2022, and November 27, 2021 is summarized below:

	Options	Weighted-Average Exercise Price
Outstanding at November 28, 2020	5,545,915	\$ 47.34
Granted.....	1,237,094	53.33
Exercised.....	(740,731)	43.64
Forfeited or cancelled.....	(1,069,886)	56.33
Outstanding at November 27, 2021	4,972,392	\$ 47.45
Granted.....	549,458	72.75
Exercised.....	(657,789)	45.79
Forfeited or cancelled.....	(40,991)	61.31
Outstanding at December 3, 2022	4,823,070	\$ 50.42
Granted.....	471,975	68.27
Exercised.....	(314,832)	46.43
Forfeited or cancelled.....	(38,328)	63.52
Outstanding at December 2, 2023	4,941,885	\$ 52.28

The fair value of options granted during 2023, 2022 and 2021 was \$10,577, \$5,400 and \$17,250, respectively. Total intrinsic value of options exercised during 2023, 2022 and 2021 was \$8,015, \$16,877 and \$15,261, respectively. For options outstanding at December 2, 2023, the weighted-average remaining contractual life was 5.6 years and the aggregate intrinsic value was \$121,640. There were 3,926,049 options exercisable at December 2, 2023, with a weighted-average remaining contractual life of 4.9 years and an aggregate intrinsic value of \$108,853. Intrinsic value is the difference between our closing stock price on the respective trading day and the exercise price, multiplied by the number of options exercised. Proceeds received from option exercises during the year ended December 2, 2023, December 3, 2022, and November 27, 2021 were \$14,619, \$30,122 and \$32,325, respectively. The company's actual tax benefits realized for the tax deductions related to the exercise of stock options for 2023, 2022 and 2021 was \$1,885, \$3,687 and \$3,874, respectively.

Restricted Stock Unit Activity

The nonvested restricted stock unit activity for the years ended December 2, 2023, December 3, 2022, and November 27, 2021 is summarized below:

	Units	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Contractual Life (in Years)
Nonvested at November 28, 2020	432,349	\$ 46.22	0.8
Granted.....	356,779	54.49	3.2
Vested	(157,945)	48.69	-
Forfeited.....	(78,818)	47.79	0.8
Nonvested at November 27, 2021	\$ 552,365	\$ 50.63	1.9
Granted.....	179,603	67.92	3.2
Vested	(172,474)	46.74	-
Forfeited.....	(68,374)	45.83	0.1
Nonvested at December 3, 2022	\$ 491,120	\$ 58.98	0.7
Granted.....	187,185	63.32	2.2
Vested	(113,339)	53.83	-
Forfeited.....	(36,276)	44.48	0.2
Nonvested at December 2, 2023	\$ 528,690	\$ 62.61	0.7

Total fair value of restricted stock units vested during 2023, 2022, and 2021 was \$6,101, \$8,062 and \$7,691, respectively. The total fair value of nonvested restricted stock at December 2, 2023 was \$33,101.

We indirectly repurchased 37,715, 55,081 and 50,799 shares during 2023, 2022 and 2021, respectively, through a net-settlement feature in connection with the statutory minimum tax withholding related to vesting of restricted stock. The company's actual tax benefits realized for the tax deductions related to the restricted stock vested for 2023, 2022 and 2021 was \$1,396, \$2,569 and \$1,439, respectively.

Deferred Compensation Activity

Deferred compensation units are fully vested at the date of contribution. The deferred compensation units outstanding for the years ended December 2, 2023, December 3, 2022, and November 27, 2021 is summarized below:

	Non-employee Directors	Employees	Total
Units outstanding November 28, 2020	455,265	44,553	499,818
Participant contributions	13,036	10,487	23,523
Company match contributions ¹	20,118	1,049	21,167
Payouts.....	(19,895)	(7,728)	(27,623)
Units outstanding November 27, 2021	468,524	48,361	516,885
Participant contributions	89,054	12,985	102,039
Company match contributions ¹	26,843	1,299	28,142
Payouts.....	(118,429)	(6,073)	(124,502)
Units outstanding December 3, 2022	465,992	56,572	522,564
Participant contributions	13,187	12,219	25,406
Company match contributions ¹	18,899	1,222	20,121
Payouts.....	(102,108)	(6,826)	(108,934)
Units outstanding December 2, 2023	395,970	63,187	459,157

¹ The non-employee directors' company match includes 17,580, 17,937 and 18,814 deferred compensation units paid as discretionary awards to all non-employee directors in 2023, 2022 and 2021, respectively.

The fair value of non-employee directors' company matches for 2023, 2022 and 2021 was \$172, \$172 and \$163, respectively. The fair value of the non-employee directors' discretionary award was \$1,200, \$1,080 and \$1,215 for 2023, 2022 and 2021, respectively. The fair value of employee company matches was \$79, \$86 and \$61 for 2023, 2022 and 2021, respectively.

Note 10: Pension and Postretirement Benefits

Defined Contribution Plan

All U.S. employees have the option of contributing up to 75 percent of their pre-tax earnings to a 401(k) plan, subject to IRS limitations. We match up to the first 4 percent of each employee's pre-tax earnings, based on the employee's contributions. All U.S. employees are eligible for a separate annual non-discretionary retirement contribution to the 401(k) plan of 1 percent of pay, that is invested based on the election of the individual participant. The 1 percent contribution is in addition to our 4 percent matching contribution described above and is in lieu of participation in our defined benefit pension plan. The total contribution to the 401(k) plan for 2023 was \$14,221 which included the cost of the 4 percent company match of \$9,853 and the additional 1 percent contribution of \$4,368. The total contributions to the 401(k) plan were \$12,113 and \$12,488 in 2022 and 2021, respectively.

All U.S. employees are eligible to receive an annual discretionary non-elective contribution to the 401(k) plan of up to 3 percent based on achieving the company's earnings per share target. This discretionary contribution is in addition to the contributions described above. There was no discretionary non-elective contribution for 2023 and a discretionary non-elective contribution of \$950 was accrued for 2022.

The defined contribution plan liability recorded in the Consolidated Balance Sheets was \$11,626 and \$12,263 in 2023 and 2022, respectively, for the U.S. Plan and several statutorily required non-U.S. Plans.

Defined Benefit Plans

Noncontributory defined benefit pension plans cover all U.S. employees employed prior to January 1, 2007. Benefits for these plans are based primarily on each employee's years of service and average compensation. During 2011, we made significant changes to our U.S. pension plan. The changes included: benefits under the plan were locked-in using service and salary as of May 31, 2011, participants no longer earn benefits for future service and salary as they had in the past, affected participants receive a three percent increase to the locked-in benefit for every year they continue to work for us and we are making a retirement contribution of three percent of eligible compensation to the 401(k) Plan for those participants. The funding policy is consistent with the funding requirements of federal law and regulations. Plan assets consist principally of listed equity securities and bonds. During 2020, we amended the U.S. pension plan to add a program for eligible employees to take a lump sum distribution. No amounts were paid under this program in 2023 or 2022. Other U.S. postretirement benefits are funded through a Voluntary Employees' Beneficiaries Association Trust.

Health care and life insurance benefits are provided for eligible retired employees and their eligible dependents. These benefits are provided through various insurance companies and health care providers. Costs are accrued during the years the employee renders the necessary service.

Certain non-U.S. subsidiaries provide pension benefits for their employees consistent with local practices and regulations. These plans are primarily defined benefit plans covering substantially all employees upon completion of a specified period of service. Benefits for these plans are generally based on years of service and annual compensation.

Following is a reconciliation of the beginning and ending balances of the benefit obligation and fair value of plan assets as of December 2, 2023 and December 3, 2022:

	Pension Benefits				Other Postretirement	
	U.S. Plans		Non-U.S. Plans		Benefits	
	2023	2022	2023	2022	2023	2022
Change in projected benefit obligation						
Benefit obligation at beginning of year.....	\$ 269,874	\$ 361,212	\$ 154,850	\$ 238,400	\$ 24,173	\$ 31,262
Service cost	-	-	1,670	2,765	-	-
Interest cost	13,901	9,653	5,726	2,893	1,205	748
Participant contributions	-	-	-	-	232	296
Actuarial gain ¹	(7,298)	(80,296)	(12,435)	(57,159)	(611)	(5,395)
Curtailments	-	-	-	231	-	-
Settlement payments	(141)	(200)	(252)	(7,988)	-	-
Benefits paid	(20,946)	(20,495)	(7,663)	(8,370)	(2,866)	(2,738)
Foreign currency translation effect.....	-	-	4,900	(15,922)	-	-
Benefit obligation at end of year	255,390	269,874	146,796	154,850	22,133	24,173
Change in plan assets						
Fair value of plan assets at beginning of year.....	326,786	409,811	141,908	216,623	120,782	135,701
Actual return on plan assets	12,811	(63,562)	(5,545)	(45,328)	15,160	(12,613)
Employer contributions	1,228	1,232	1,744	1,640	145	136
Participant contributions	-	-	-	-	232	296
Settlement payments	(141)	(200)	-	-	-	-
Benefits paid ²	(20,946)	(20,495)	(7,663)	(8,369)	(2,866)	(2,738)
Foreign currency translation effect.....	-	-	4,178	(22,658)	-	-
Fair value of plan assets at end of year.....	319,738	326,786	134,622	141,908	133,453	120,782
Plan assets in excess of (less than) benefit obligation as of year end	\$ 64,348	\$ 56,912	\$ (12,174)	\$ (12,942)	\$ 111,320	\$ 96,608

¹ Actuarial gain in 2023 and 2022 for the U.S. Plans is primarily due to assumption changes. Actuarial gain in 2023 and 2022 for the Non-U.S. Plans are due to both assumption changes and plan experience.

² Amount excludes benefit payments made from sources other than plan assets.

Amounts in accumulated other comprehensive income (loss) that have not been recognized as components of net periodic benefit cost

	Pension Benefits				Other Postretirement Benefits	
	U.S. Plans		Non-U.S. Plans			
	2023	2022	2023	2022	2023	2022
Unrecognized actuarial loss (gain).....	\$ 143,522	\$ 137,351	\$ 49,128	\$ 49,306	\$ (14,442)	\$ (8,530)
Unrecognized prior service cost.....	-	-	1,196	1,219	-	-
Ending balance.....	\$ 143,522	\$ 137,351	\$ 50,324	\$ 50,525	\$ (14,442)	\$ (8,530)

	Pension Benefits				Other Postretirement Benefits	
	U.S. Plans		Non-U.S. Plans			
	2023	2022	2023	2022	2023	2022
Non-current assets.....	\$ 76,677	\$ 69,826	\$ 15,635	\$ 16,790	\$ 113,431	\$ 98,848
Accrued benefit cost.....						
Current liabilities.....	(1,239)	(1,248)	(1,464)	(1,727)	(218)	(218)
Non-current liabilities	(11,089)	(11,666)	(26,345)	(28,006)	(1,893)	(2,021)
Ending balance.....	\$ 64,349	\$ 56,912	\$ (12,174)	\$ (12,943)	\$ 111,320	\$ 96,609

Statement of financial position as of fiscal year-end

The accumulated benefit obligation of the U.S. pension and other postretirement plans was \$273,197 at December 2, 2023 and \$289,049 at December 3, 2022. The accumulated benefit obligation of the non-U.S. pension plans was \$141,402 at December 2, 2023 and \$148,927 at December 3, 2022.

The following amounts relate to pension plans with accumulated benefit obligations in excess of plan assets as of December 2, 2023 and December 3, 2022:

	Pension Benefits and Other Postretirement Benefits			
	U.S. Plans		Non-U.S. Plans	
	2023	2022	2023	2022
Accumulated benefit obligation	\$ 12,329	\$ 12,914	\$ 35,034	\$ 36,820
Fair value of plan assets	-	-	9,700	9,617

The following amounts relate to pension plans with projected benefit obligations in excess of plan assets as of December 2, 2023 and December 3, 2022:

	Pension Benefits and Other Postretirement Benefits			
	U.S. Plans		Non-U.S. Plans	
	2023	2022	2023	2022
Projected benefit obligation	\$ 12,329	\$ 12,914	\$ 37,510	\$ 39,350
Fair value of plan assets	-	-	9,700	9,617

Information about the expected cash flows is as follows:

	Pension Benefits		Other
	U.S. Plans	Non-U.S. Plans	Postretirement Benefits
Employer contributions			
2024	\$ -	\$ 5	\$ -
Expected benefit payments			
2024	21,330	8,387	2,723
2025	21,351	8,470	2,622
2026	21,251	8,651	2,512
2027	21,168	8,948	2,382
2028- 2033	121,219	53,787	11,487

The components of our net period defined benefit pension and postretirement benefit costs other than service cost are presented as non-operating expenses and service cost is presented in operating expenses.

Components of net periodic benefit cost and other supplemental information for the years ended December 2, 2023, December 3, 2022, and November 27, 2021 are as follows:

	Pension Benefits						Other		
	U.S. Plans			Non-U.S. Plans			Postretirement Benefits		
Net periodic cost (benefit)	2023	2022	2021	2023	2022	2021	2023	2022	2021
Service cost	\$ -	\$ -	\$ -	\$ 1,670	\$ 2,765	\$ 3,280	\$ -	\$ -	\$ 21
Interest cost	13,901	9,653	9,299	5,726	2,893	2,941	1,205	748	822
Expected return on assets	(28,821)	(29,018)	(31,123)	(7,027)	(6,465)	(12,348)	(9,859)	(11,084)	(8,945)
Amortization:									
Prior service (benefit) cost	-	(3)	(3)	62	63	69	-	-	-
Actuarial loss (gain)	2,541	4,132	3,198	1,993	2,411	4,053	-	(3,445)	73
Settlement charge	-	-	-	19	3,329	-	-	-	-
Net periodic (benefit) cost	<u>\$ (12,379)</u>	<u>\$ (15,237)</u>	<u>\$ (18,629)</u>	<u>\$ 2,443</u>	<u>\$ 4,996</u>	<u>\$ (2,005)</u>	<u>\$ (8,654)</u>	<u>\$ (13,781)</u>	<u>\$ (8,029)</u>

	Pension Benefits						Other		
	U.S. Plans			Non-U.S. Plans			Postretirement Benefits		
Weighted-average assumptions used to determine benefit obligations	2023	2022	2021	2023	2022	2021	2023	2022	2021
Discount rate	5.66%	5.36%	2.75%	4.37%	3.70%	1.27%	5.61%	5.29%	2.51%
Rate of compensation increase ¹	0.00%	0.00%	0.00%	1.82%	1.83%	1.48%	N/A	N/A	N/A
Weighted-average assumptions used to determine net costs for years ended	2023	2022	2021	2023	2022	2021	2023	2022	2021
Discount rate	5.36%	2.75%	2.50%	3.71%	1.29%	1.19%	5.29%	2.51%	2.19%
Expected return on plan assets	7.75%	7.00%	7.24%	5.02%	3.49%	6.15%	8.25%	8.25%	8.25%
Rate of compensation increase ¹	0.00%	0.00%	0.00%	1.82%	1.68%	1.67%	0.00%	0.00%	0.00%

¹ Under the U.S. pension plan, the compensation amount was locked-in as of May 31, 2011 and thus the benefit no longer includes compensation increases.

The discount rate assumption is determined using an actuarial yield curve approach, which results in a discount rate that reflects the characteristics of the plan. The approach identifies a broad population of corporate bonds that meet the quality and size criteria for the particular plan. We use this approach rather than a specific index that has a certain set of bonds that may or may not be representative of the characteristics of our particular plan. A higher discount rate reduces the present value of the pension obligations. The discount rate for the U.S. pension plan was 5.66 percent at December 2, 2023, 5.36 percent at December 3, 2022 and 2.76 percent at November 27, 2021. Net periodic pension cost for a given fiscal year is based on assumptions developed at the end of the previous fiscal year. A discount rate change of 0.5 percentage points at December 2, 2023 would impact U.S. pension and other postretirement plan (income) expense by approximately \$149 (pre-tax) in fiscal 2024. Discount rates for non-U.S. plans are determined in a manner consistent with the U.S. plans.

For the U.S. pension plan, we adopted the Adjusted Pri-2012 base mortality table projected generationally using scale MP-2021.

The expected long-term rate of return on plan assets assumption for the U.S. pension plan was 7.75 percent in 2023, 7.00 percent in 2022 and 7.25 percent in 2021. Our expected long-term rate of return on U.S. plan assets was based on our target asset allocation assumption of 55 percent equities and 45 percent fixed-income. Management, in conjunction with our external financial advisors, determines the expected long-term rate of return on plan assets by considering the expected future returns and volatility levels for each asset class that are based on historical returns and forward-looking observations. For 2023, the expected long-term rate of return on the target equities allocation was 8.50 percent and the expected long-term rate of return on the target fixed-income allocation was 5.60 percent. The total plan rate of return assumption included an estimate of the effect of diversification and the plan expense. A change of 0.5 percentage points for the expected return on assets assumption would impact U.S. net pension and other postretirement plan expense by approximately \$2,266 (pre-tax).

Management, in conjunction with our external financial advisors, uses the actual historical rates of return of the asset categories to assess the reasonableness of the expected long-term rate of return on plan assets.

The expected long-term rate of return on plan assets assumption for non-U.S. pension plans was a weighted-average of 5.02 percent in 2023 compared to 3.49 percent in 2022 and 6.15 percent in 2021. The expected long-term rate of return on plan assets assumption used in each non-U.S. plan is determined on a plan-by-plan basis for each local jurisdiction and is based on expected future returns for the investment mix of assets currently in the portfolio for that plan. Management, in conjunction with our external financial advisors, develops expected rates of return for each plan, considers expected long-term returns for each asset category in the plan, reviews expectations for inflation for each local jurisdiction, and estimates the effect of active management of the plan's assets. Our largest non-U.S. pension plans are in the United Kingdom and Germany. The expected long-term rate of return on plan assets for the United Kingdom was 4.50 percent and the expected long-term rate of return on plan assets for Germany was 5.50 percent. Management, in conjunction with our external financial advisors, uses actual historical returns of the asset portfolio to assess the reasonableness of the expected rate of return for each plan.

Assumed health care trend rates

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Health care cost trend rate assumed for next year	6.25%	6.50%	6.50%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.75%	5.75%	5.00%
Fiscal year that the rate reaches the ultimate trend rate	2026	2026	2028

The asset allocation for the company's U.S. and non-U.S. pension plans at the end of 2023 and 2022 follows.

Asset Category	U.S. Pension Plans			Non-U.S. Pension Plans			Other Postretirement Plans		
	Percentage of Plan Assets at			Percentage of Plan Assets at			Percentage of Plan Assets at		
	Target	Year-End		Target	Year-End		Target	Year-End	
	2023	2023	2022	2023	2023	2022	2023	2023	2022
Equities	55.0%	53.8%	53.1%	21.0%	22.0%	25.5%	0.0%	0.0%	0.0%
Fixed income.....	45.0%	44.9%	45.8%	79.0%	77.2%	70.0%	0.0%	0.0%	0.0%
Insurance.....	0.0%	0.0%	0.1%	0.0%	0.0%	0.0%	100.0%	99.5%	98.9%
Cash ¹	0.0%	1.3%	1.0%	0.0%	0.8%	4.5%	0.0%	0.5%	1.1%
Total.....	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

Plan Asset Management

Plan assets are held in trust and invested in mutual funds, separately managed accounts and other commingled investment vehicles holding U.S. and non-U.S. equity securities, fixed income securities and other investment classes. We employ a total return approach whereby a mix of equities and fixed income investments are used to maximize the long-term return of plan assets for a prudent level of risk. Futures and options may also be used to enhance risk-adjusted long-term returns while improving portfolio diversification and duration. Risk management is accomplished through diversification across asset classes, utilization of multiple investment managers and general plan-specific investment policies. Risk tolerance is established through careful consideration of the plan liabilities, plan funded status and our assessment of our overall liquidity position. This asset allocation policy mix is reviewed annually and actual versus target allocations are monitored regularly and rebalanced on an as-needed basis. Plan assets are invested using a combination of active and passive investment strategies. Passive, or “indexed” strategies, attempt to mimic rather than exceed the investment performance of a market benchmark. The plans’ active investment strategies employ multiple investment management firms which in aggregate cover a range of investment styles and approaches. Performance is monitored and compared to relevant benchmarks on a regular basis.

The U.S. pension plans consist of two plans: a pension plan and a supplemental executive retirement plan (“SERP”). There were no assets in the SERP in 2023 and 2022. Consequently, all of the data disclosed in the asset allocation table for the U.S. pension plans pertain to our U.S. pension plan.

During 2023, we maintained our assets within the allowed ranges of the target asset allocation mix of 55 percent equities and 45 percent fixed income plus or minus 5 percent and continued our focus to reduce volatility of plan assets in future periods and to more closely match the duration of the assets with the duration of the liabilities of the plan.

The non-U.S. pension plans consist of all the pension plans administered outside the U.S., principally consisting of plans in Germany and the United Kingdom. During 2023, we maintained our assets for the non-U.S. pension plans at the specific target asset allocation mix determined for each plan plus or minus the allowed rate and continued our focus to reduce volatility of plan assets in future periods and to more closely match the duration of the assets with the duration of the liabilities of the individual plans. We plan to maintain the portfolios at their respective target asset allocations in 2024.

Other postretirement benefits plans consist of two U.S. plans: a retiree medical health care plan and a group term life insurance plan. There were no assets in the group term life insurance plan for 2023 and 2022. Consequently, all of the data disclosed in the asset allocation table for other postretirement plans pertain to our retiree medical health care plan. Our investment strategy for other postretirement benefit plans is to own insurance policies that maintain an asset allocation nearly completely in equities. These equities are invested in a passive portfolio indexed to the S&P 500.

Fair Value of Plan Assets

The following table presents plan assets categorized within a three-level fair value hierarchy as described in Note 13.

	December 2, 2023			
	Level 1	Level 2	Level 3	Total Assets
U.S. Pension Plans				
Equities	\$ -	\$ 172,166	\$ -	\$ 172,166
Fixed income.....	-	129,044	-	129,044
Cash	4,054	-	-	4,054
Total categorized in the fair value hierarchy	4,054	301,210	-	305,264
Other investments measured at NAV ¹	-	-	-	14,474
Total	<u>\$ 4,054</u>	<u>\$ 301,210</u>	<u>\$ -</u>	<u>\$ 319,738</u>
Non-U.S. Pension Plans				
Equities	\$ 29,601	\$ -	\$ -	\$ 29,601
Fixed income.....	40,686	-	726	41,412
Cash	1,137	-	-	1,137
Total categorized in the fair value hierarchy	71,424	-	726	72,150
Other investments measured at NAV ¹	-	-	-	62,472
Total	<u>\$ 71,424</u>	<u>\$ -</u>	<u>\$ 726</u>	<u>\$ 134,622</u>
Other Postretirement Benefits				
Insurance.....	\$ -	\$ -	\$ 132,754	\$ 132,754
Cash	699	-	-	699
Total	<u>\$ 699</u>	<u>\$ -</u>	<u>\$ 132,754</u>	<u>\$ 133,453</u>
	December 3, 2022			
	Level 1	Level 2	Level 3	Total Assets
U.S. Pension Plans				
Equities	\$ -	\$ 152,084	\$ 21,525	\$ 173,609
Fixed income.....	-	126,114	23,547	149,661
Insurance.....	-	-	179	179
Cash	3,337	-	-	3,337
Total categorized in the fair value hierarchy	<u>3,337</u>	<u>278,198</u>	<u>45,251</u>	<u>326,786</u>

Non-U.S. Pension Plans	Level 1	Level 2	Level 3	Total Assets
Equities	\$ 28,422	\$ -	\$ -	\$ 28,422
Fixed income.....	41,515	-	703	42,218
Cash	491	-	-	491
Total categorized in the fair value hierarchy	70,428	-	703	71,131
Other investments measured at NAV ¹				70,777
Total	\$ 70,428	\$ -	\$ 703	\$ 141,908

Other Postretirement Benefits	Level 1	Level 2	Level 3	Total Assets
Insurance.....	\$ -	\$ -	\$ 119,446	\$ 119,446
Cash	1,336	-	-	1,336
Total	\$ 1,336	\$ -	\$ 119,446	\$ 120,782

¹ In accordance with ASC Topic 820-10, *Fair Value Measurement*, certain investments that are measured at NAV (Net Asset Value per share) (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts represented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

The definitions of fair values of our pension and other postretirement benefit plan assets at December 2, 2023 and December 3, 2022 by asset category are as follows:

Equities—Primarily publicly traded common stock for purposes of total return and to maintain equity exposure consistent with policy allocations. Investments include: (i) U.S. and non-U.S. equity securities and mutual funds valued at closing prices from national exchanges; and (ii) commingled funds valued at unit values or net asset values provided by the investment managers, which are based on the fair value of the underlying investments. Funds valued at net asset value have various investment strategies including seeking maximum total returns consistent with prudent investment management, seeking current income consistent with preservation of capital and daily liquidity and seeking to approximate the risk and return characterized by a specific index fund. There are no restrictions for redeeming holdings out of these funds and the funds have no unfunded commitments.

Fixed income—Primarily corporate and government debt securities for purposes of total return and managing fixed income exposure to policy allocations. Investments include (i) mutual funds valued at closing prices from national exchanges, (ii) corporate and government debt securities valued at closing prices from national exchanges, (iii) commingled funds valued at unit values or net asset value provided by the investment managers, which are based on the fair value of the underlying investments, and (iv) an annuity contract, the value of which is determined by the provider and represents the amount the plan would receive if the contract were cashed out at year-end.

Insurance—Insurance contracts for purposes of funding postretirement medical benefits. Fair values are the cash surrender values as determined by the providers which are the amounts the plans would receive if the contracts were cashed out at year end.

Cash—Cash balances on hand, accrued income and pending settlements of transactions for purposes of handling plan payments. Fair values are the cash balances as reported by the Trustees of the plans.

The following is a roll forward of the Level 3 investments of our pension and postretirement benefit plan assets during the years ended December 2, 2023 and December 3, 2022:

	Fixed Income	
	2023	2022
U.S. Pension Plans		
Level 3 balance at beginning of year.....	\$ 45,251	\$ 186
Net transfers (out of)/into level 3	(45,072)	16,564
Purchases, sales, issuances and settlements, net.....	(179)	28,501
Level 3 balance at end of year.....	<u>\$ -</u>	<u>\$ 45,251</u>
	Fixed Income	
	2023	2022
Non-U.S. Pension Plans		
Level 3 balance at beginning of year.....	\$ 703	\$ 749
Net transfers into level 3	-	7
Net losses	-	(1)
Currency change effect	23	(52)
Level 3 balance at end of year.....	<u>\$ 726</u>	<u>\$ 703</u>
	Insurance	
	2023	2022
Other Postretirement Benefits		
Level 3 balance at beginning of year.....	\$ 119,446	\$ 135,484
Net transfers out of level 3	-	(1,992)
Purchases, sales, issuances and settlements, net.....	(1,144)	(1,122)
Net gains/(losses)	14,452	(12,924)
Level 3 balance at end of year.....	<u>\$ 132,754</u>	<u>\$ 119,446</u>

Note 11: Income Taxes

Income before income taxes and income from equity method investments

	2023	2022	2021
United States	\$ 15,276	\$ 63,718	\$ 14,989
Non-U.S.	218,885	188,210	201,862
Total	<u>\$ 234,161</u>	<u>\$ 251,928</u>	<u>\$ 216,851</u>

Components of the provision for income tax expense (benefit)

	2023	2022	2021
Current:			
U.S. federal	\$ 18,347	\$ 12,181	\$ 10,310
State	5,529	3,389	2,265
Non-U.S.	87,449	63,750	57,801
	<u>111,325</u>	<u>79,320</u>	<u>70,376</u>
Deferred:			
U.S. federal	(100)	8,150	(6,891)
State	(4,111)	(1,767)	(350)
Non-U.S.	(13,585)	(8,517)	(102)
	<u>(17,796)</u>	<u>(2,134)</u>	<u>(7,343)</u>
Total	<u>\$ 93,529</u>	<u>\$ 77,186</u>	<u>\$ 63,033</u>

Reconciliation of effective income tax

	2023	2022	2021
Tax at statutory U.S. federal income tax rate	\$ 49,174	\$ 52,760	\$ 45,539
State income taxes, net of federal benefit.....	1,137	1,252	1,444
Foreign dividend repatriation ¹	21,730	2,596	1,104
Foreign operations.....	12,558	1,868	19,673
Executive compensation over \$1.0 million	784	2,847	2,507
Non-U.S. stock option expense	730	525	575
Change in valuation allowance	725	3,187	(9,572)
Research and development tax credit.....	(1,400)	(927)	(993)
Foreign-derived intangible income	(2,665)	(2,786)	(2,617)
Global intangible low-taxed income	2,345	1,890	2,334
Provision to return.....	1,336	840	1,122
Cross currency swap	-	7,020	3,931
Contingency reserve.....	5,951	5,909	(2,139)
Other	1,124	205	125
Total income tax expense.....	<u>\$ 93,529</u>	<u>\$ 77,186</u>	<u>\$ 63,033</u>

¹ Foreign dividend repatriation line includes impact of withholding tax recorded on earnings that are no longer permanently reinvested.

Deferred income tax balances at each year-end related to:	2023	2022
Deferred tax assets:		
Pension and other post-retirement benefit plans.....	\$ 5,306	\$ 6,752
Employee benefit costs	27,672	25,196
Foreign tax credit carryforward.....	6,538	7,884
Tax loss carryforwards.....	25,894	22,948
Leases.....	12,716	8,538
Hedging activity.....	18,638	13,299
Interest deduction limitation.....	37,519	17,736
Other	33,022	28,840
Gross deferred tax assets.....	<u>167,305</u>	<u>131,193</u>
Less: valuation allowance	<u>(15,595)</u>	<u>(14,424)</u>
Total net deferred tax assets.....	<u>151,710</u>	<u>116,769</u>
Deferred tax liability:		
Depreciation and amortization	(209,266)	(215,219)
Pension and other post-retirement benefit plans.....	(41,444)	(37,362)
Undistributed earnings of non-U.S. subsidiaries	(21,926)	-
Leases.....	(12,510)	(8,329)
Total deferred tax liability.....	<u>(285,146)</u>	<u>(260,910)</u>
Net deferred tax liability	<u>\$ (133,436)</u>	<u>\$ (144,141)</u>

The difference between the change in the deferred tax liability on the balance sheet and the deferred tax provision is primarily related to the defined benefit pension plan adjustment and hedges recorded in accumulated other comprehensive income (loss) offset by liabilities established in purchase accounting.

Valuation allowances primarily relate to foreign net operating loss carryforwards and branch foreign tax credit carryforwards where the future potential benefits do not meet the more-likely-than-not realization test. The increase in the valuation allowance is primarily related to a decrease in foreign net operating losses for which the Company does not expect to receive a full tax benefit.

Deferred tax assets and liabilities are measured using the currently enacted tax rates that apply to taxable income in effect for the years in which those deferred tax assets and liabilities are expected to be realized or settled. We record a valuation allowance to reduce deferred tax assets to the amount that is believed more-likely-than-not to be realized. We believe it is more-likely-than-not that reversal of deferred tax liabilities and forecasted income will be sufficient to fully recover the net deferred tax assets not already offset by a valuation allowance. In the event that all or part of the gross deferred tax assets are determined not to be realizable in the future, an adjustment to the valuation allowance would be charged to earnings in the period such determination is made.

U.S. income taxes have not been provided on approximately \$1,154,354 of undistributed earnings of non-U.S. subsidiaries. We intend to indefinitely reinvest these undistributed earnings. Cash available in the United States has historically been sufficient and we expect it will continue to be sufficient to fund U.S. cash flow requirements. In the event these earnings are later distributed to the U.S., such distributions would likely result in additional U.S. tax.

While non-U.S. operations have been profitable overall, there are cumulative tax losses of \$81,655 in various countries. These tax losses can be carried forward to offset the income tax liabilities on future income in these countries. Cumulative tax losses of \$60,269 can be carried forward indefinitely, while the remaining \$21,386 of tax losses must be utilized during 2024 to 2041.

The U.S. has a branch foreign tax credit carryforward of \$4,465. A valuation allowance has been recorded against this foreign tax credit carryforward to reflect that this amount is not more-likely-than-not to be realized.

The table below sets forth the changes to our gross unrecognized tax benefit as a result of uncertain tax positions, excluding accrued interest. We do not anticipate that the total unrecognized tax benefits will change significantly within the next twelve months.

	<u>2023</u>	<u>2022</u>
Balance at beginning of year	\$ 17,582	\$ 13,281
Tax positions related to the current year:		
Additions.....	723	469
Tax positions related to prior years:		
Additions.....	5,658	5,885
Reductions.....	(965)	(1,019)
Settlements.....	(8,156)	-
Lapses in applicable statutes of limitation.....	(588)	(1,034)
Balance at end of year	<u>\$ 14,254</u>	<u>\$ 17,582</u>

Included in the balance of unrecognized tax benefits as of December 2, 2023 and December 3, 2022 are potential benefits of \$10,338 and \$12,663 respectively, that, if recognized, would affect the effective tax rate.

We report accrued interest and penalties related to unrecognized tax benefits in income tax expense. For the year ended December 2, 2023, we recognized a net benefit for interest and penalties of \$824 relating to unrecognized tax benefits and had net accumulated accrued interest and penalties of \$6,708 as of December 2, 2023. For the year ended December 3, 2022, we recognized a net benefit for interest and penalties of \$2,760 relating to unrecognized tax benefits and had net accumulated accrued interest and penalties of \$6,275 as of December 3, 2022.

We are subject to U.S. federal income tax as well as income tax in numerous state and foreign jurisdictions. We are no longer subject to U.S. federal tax examination for years prior to 2020 or Swiss income tax examination for years prior to 2020. During the second quarter of 2016, H.B. Fuller (China) Adhesives, Ltd. was notified of a transfer pricing audit covering the calendar years 2005 through 2014. We are in various stages of examination and appeal in other foreign jurisdictions. Although the final outcomes of these examinations cannot currently be determined, we believe that we have recorded adequate liabilities with respect to these examinations.

Note 12: Financial Instruments

Overview

As a result of being a global enterprise, foreign currency exchange rates and fluctuations in those rates may affect the Company's net investment in foreign subsidiaries and our earnings, cash flows and financial position are exposed to foreign currency risk from foreign currency denominated receivables and payables.

We use foreign currency forward contracts, cross-currency swaps, interest rate swaps and net investment hedges to manage risks associated with foreign currency exchange rates and interest rates. We do not hold derivative financial instruments of a speculative nature or for trading purposes. We record derivatives as assets and liabilities on the balance sheet at fair value. Changes in fair value are recognized immediately in earnings unless the derivative qualifies and is designated as a hedge. Cash flows from derivatives are classified in the Consolidated Statement of Cash Flows in the same category as the cash flows from the items subject to designated hedge or undesignated (economic) hedge relationships. The company evaluates hedge effectiveness at inception and on an ongoing basis. If a derivative is no longer expected to be effective, hedge accounting is discontinued. Hedge ineffectiveness, if any, is recorded in earnings.

We are exposed to credit risk in the event of nonperformance of counterparties for foreign currency forward exchange contracts and interest rate swap agreements. We select investment-grade multinational banks and financial institutions as counterparties for derivative transactions and monitor the credit quality of each of these banks on a periodic basis as warranted. We do not anticipate nonperformance by any of these counterparties, and valuation allowances, if any, are *de minimis*.

Cash Flow Hedges

On January 12, 2023, we entered into an interest rate swap agreement to convert \$400,000 of our variable rate 1-month LIBOR rate debt to a fixed rate of 3.6895 percent that matures on January 12, 2028. On February 28, 2023, after refinancing our debt, we amended the interest rate swap agreement to our 1-month SOFR rate debt to a fixed rate of 3.7260 in accordance with the practical expedients included in ASC 848, *Reference Rate Reform*. The combined fair value of the interest rate swap was an asset of \$2,458 at December 2, 2023 and was included in other assets in the Consolidated Balance Sheets. The swap was designated for hedge accounting treatment as a cash flow hedge. We are applying the hypothetical derivative method to assess hedge effectiveness for this interest rate swap. Changes in the fair value of a hypothetically perfect swap with terms that match the critical terms of our variable rate debt are compared with the change in the fair value of the swap.

On March 16, 2023, we entered into an interest rate swap agreement to convert \$300,000 of our 1-month SOFR rate debt to a fixed rate of 3.7210 percent that matures on February 15, 2028. The combined fair value of the interest rate swap was an asset of \$1,174 at December 2, 2023 and was included in other assets in the Consolidated Balance Sheets. The swap was designated for hedge accounting treatment as a cash flow hedge. We are applying the hypothetical derivative method to assess hedge effectiveness for this interest rate swap. Changes in the fair value of a hypothetically perfect swap with terms that match the critical terms of our variable rate debt are compared with the change in the fair value of the swaps.

On March 16, 2023, we entered into an interest rate swap agreement to convert \$100,000 of our 1-month SOFR rate debt to a fixed rate of 3.8990 percent that matures on February 15, 2028. The combined fair value of the interest rate swap was a liability of \$63 at December 2, 2023 and was included in other liabilities in the Consolidated Balance Sheets. The swap was designated for hedge accounting treatment as a cash flow hedge. We are applying the hypothetical derivative method to assess hedge effectiveness for these interest rate swaps. Changes in the fair value of a hypothetically perfect swap with terms that match the critical terms of our variable rate debt are compared with the change in the fair value of the swaps.

The amounts of pretax gains (losses) recognized in comprehensive income related to derivative instruments designated as cash flow hedges are as follows:

	December 2, 2023	December 3, 2022	November 27, 2021
Cross-currency swap contracts.....	\$ -	\$ (3,536)	\$ (4,554)
Interest rate swap contracts	\$ 5,932	\$ 13,148	\$ 20,109
Net investment hedges	\$ (18,555)	\$ (54,040)	-

Fair Value Hedges

On February 12, 2021, we entered into interest rate swap agreements to convert our \$300,000 Public Notes that were issued on October 20, 2020 to a variable interest rate of 1-month LIBOR plus 3.28 percent. On June 30, 2023, 1-month LIBOR rates ceased to exist and the IBOR Fallbacks Protocol published by the International Swaps and Derivatives Association ("ISDA") took effect as outlined in the interest rate swap agreement. As a result, the interest rate swap agreements were converted to Overnight SOFR plus 3.28 percent. We applied the practical expedients included in ASC 848, *Reference Rate Reform*. See Note 7 for further discussion on the issuance of our Public Notes. These interest rate swap agreements mature on October 15, 2028. The combined fair value of the interest rate swaps was a liability of \$41,532 at December 2, 2023, and was included in other liabilities in the Consolidated Balance Sheets. The swaps were designated for hedge accounting treatment as fair value hedges. We apply the short cut method and assume hedge effectiveness. Changes in the fair value of a hypothetically perfect swap with terms that match the critical terms of our \$300,000 fixed rate Public Notes are compared with the change in the fair value of the swaps.

On February 14, 2017, we entered into an interest rate swap agreement to convert \$150,000 of our \$300,000 Public Notes that were issued on February 14, 2017 to a variable interest rate of 1-month LIBOR plus 1.86 percent. The swap was designated for hedge accounting treatment as a fair value hedge. We applied the hypothetical derivative method to assess hedge effectiveness for this interest rate swap. Changes in the fair value of a hypothetically perfect swap with terms that match the critical terms of our \$150,000 fixed rate Public Notes are compared with the change in the fair value of the swap. On May 1, 2020, we terminated the swap agreement. Upon termination, we received \$15,808 in cash. The remaining swap liability will be accounted for as a discount on long-term debt and will be amortized to interest expense over the remaining life of the Public Notes of seven years.

Net Investment Hedges

On October 17, 2022, we entered into a float-to-float cross-currency interest rate swap agreement with a notional amount of €307,173 maturing in October 2028. On October 20, 2022, we entered into fixed-to-fixed cross-currency interest rate swap agreements for a total notional amount of €300,000 with tranches maturing in August 2025, August 2026 and February 2027. On June 30, 2023, 1-month LIBOR rates ceased to exist and the IBOR Fallbacks Protocol published by the International Swaps and Derivatives Association (ISDA) took effect as outlined in the interest rate swap agreement. As a result, the 1-month LIBOR leg of the float-to-float agreement was converted to Overnight SOFR plus 3.28 percent. On July 17, 2023, we amended the 1-month EURIBOR leg of the float-to-float agreement to Overnight ESTR plus 3.2195 percent. We applied the practical expedients included in ASC 848, *Reference Rate Reform*. As of December 2, 2023, the combined fair value of the swaps was a liability of \$72,589 and was included in other liabilities in the Consolidated Balance Sheets. The cross-currency interest rate swaps hedge a portion of the Company's investment in Euro denominated foreign subsidiaries.

The swaps are designated as net investment hedges for accounting treatment. The net gains or losses attributable to changes in spot exchange rates are recorded in the cumulative translation adjustment within other comprehensive income (loss). The gains or losses are reclassified into earnings upon a liquidation event or deconsolidation of the foreign subsidiary. Any ineffective portions of net investment hedges are reclassified from accumulated other comprehensive income (loss) into earnings during the period of change. The amount in accumulated other comprehensive income (loss) related to net investment hedge cross-currency swaps was a loss of \$54,850 as of December 2, 2023. The amounts of pretax loss recognized in comprehensive income related to the net investment hedge was \$18,712 in 2023. As of December 2, 2023, we did not reclassify any gains or losses into earnings from net investment hedges and we do not expect to reclassify any such gain or loss into earnings within the next twelve months. No amounts related to net investment hedges have been excluded from the assessment of hedge effectiveness.

Derivatives Not Designated As Hedging Instruments

The company uses foreign currency forward contracts to offset its exposure to the change in value of certain foreign currency denominated assets and liabilities held at foreign subsidiaries that are remeasured at the end of each period. Although the contracts are effective economic hedges, they are not designated as accounting hedges. Foreign currency forward contracts are recorded as assets and liabilities on the balance sheet at fair value. Changes in the value of these derivatives are recognized immediately in earnings, thereby offsetting the current earnings effect of the related foreign currency denominated assets and liabilities. See Note 13 for fair value amounts of these derivative instruments.

As of December 2, 2023, we had forward foreign currency contracts maturing between December 4, 2023 and May 13, 2024. The mark-to-market effect associated with these contracts was largely offset by the underlying transaction gains and losses resulting from the foreign currency exposures for which these contracts relate.

The amounts of pretax gains (losses) recognized in other income, net related to derivative instruments not designated as hedging instruments are as follows:

	<u>December 2, 2023</u>	<u>December 3, 2022</u>	<u>November 27, 2021</u>
Foreign currency forward contracts	\$ 8,497	\$ 5,711	\$ (357)

Concentrations of credit risk with respect to trade accounts receivable are limited due to the large number of entities in the customer base and their dispersion across many different industries and countries. As of December 2, 2023, there were no significant concentrations of credit risk.

Note 13: Fair Value Measurements

Overview

Estimates of fair value for financial assets and liabilities are based on the framework established in the accounting guidance for fair value measurements. The framework defines fair value, provides guidance for measuring fair value and requires certain disclosures. The framework discusses valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flow) and the cost approach (cost to replace the service capacity of an asset or replacement cost). The framework utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

- Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
- Level 3: Unobservable inputs that reflect management's assumptions, and include situations where there is little, if any, market activity for the asset or liability.

Balances Measured at Fair Value on a Recurring Basis

The following table presents information about our financial assets and liabilities that are measured at fair value on a recurring basis as of December 2, 2023 and December 3, 2022, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value.

Description	Fair Value Measurements Using:			
	December 2, 2023	Level 1	Level 2	Level 3
Assets:				
Marketable securities	\$ 19,314	\$ 19,314	\$ -	\$ -
Foreign exchange contract assets	13,501	-	13,501	-
Interest rate swaps, cash flow hedge assets	3,632	-	3,632	-
Liabilities:				
Foreign exchange contract liabilities	\$ 5,004	\$ -	\$ 5,004	\$ -
Interest rate swaps, cash flow hedge liabilities	63	-	63	-
Interest rate swaps, fair value hedge liabilities	41,532	-	41,532	-
Net investment hedge liability	72,589	-	72,589	-
Contingent consideration liability	1,370	-	-	1,370

Description	Fair Value Measurements Using:			
	December 3, 2022	Level 1	Level 2	Level 3
Assets:				
Marketable securities	\$ 4,013	\$ 4,013	\$ -	\$ -
Foreign exchange contract assets	10,282	-	10,282	-
Liabilities:				
Foreign exchange contract liabilities	\$ 4,570	\$ -	\$ 4,570	\$ -
Cross-currency cash flow hedge liabilities	42,542	-	42,542	-
Interest rate swaps, cash flow hedge liabilities	54,046	-	54,046	-
Contingent consideration liability	1,977	-	-	1,977

The valuation of our contingent consideration liability related to the acquisitions of GSSI and TissueSeal was \$870 and \$500, respectively, as of December 2, 2023. As of December 2, 2023, the agreement provisions for the ZKLT contingent consideration were met, and as a result, \$4,132 was paid during 2023. Adjustments to the fair value of contingent consideration are recorded to selling, general and administrative expenses in the Statement of Income. See Note 2 for further discussion regarding our acquisitions.

Contingent consideration liability	2023
Level 3 balance at beginning of year	\$ 1,977
Fair value adjustment	3,763
Payment of contingent consideration	(4,132)
Mark to market adjustment	(238)
Level 3 balance at end of year	<u>\$ 1,370</u>

Balances Measured at Fair Value on a Nonrecurring Basis

We measure certain assets and liabilities at fair value on a nonrecurring basis. These assets include intangible assets acquired in an acquisition. The identified intangible assets of customer relationships, technology and tradenames acquired in connection with our acquisitions were measured using unobservable (Level 3) inputs. The fair value of the intangible assets was calculated using either the income or cost approach. Significant inputs include estimated revenue growth rates, gross margins, operating expenses, attrition rate, royalty rate and discount rate.

See Note 2 for further discussion regarding our acquisitions.

See Note 7 for discussion regarding the fair value of debt.

Note 14: Commitments and Contingencies

Environmental Matters

From time to time, we become aware of compliance matters relating to, or receive notices from, federal, state or local entities regarding possible or alleged violations of environmental, health or safety laws and regulations. We review the circumstances of each individual site, considering the number of parties involved, the level of potential liability or our contribution relative to the other parties, the nature and magnitude of the hazardous substances involved, the method and extent of remediation, the estimated legal and consulting expense with respect to each site and the time period over which any costs would likely be incurred. Also, from time to time, we are identified as a potentially responsible party ("PRP") under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") and/or similar state laws that impose liability for costs relating to the clean up of contamination resulting from past spills, disposal or other release of hazardous substances. We are also subject to similar laws in some of the countries where current and former facilities are located. Our environmental, health and safety department monitors compliance with applicable laws on a global basis. To the extent we can reasonably estimate the amount of our probable liabilities for environmental matters, we establish an undiscounted financial provision. We recorded liabilities of \$5,034 and \$5,754 as of December 2, 2023 and December 3, 2022, respectively, for probable and reasonably estimable environmental remediation costs. Of the amount reserved, \$2,301 and \$2,789 as of December 2, 2023 and December 3, 2022, respectively, is attributable to a facility we own in Simpsonville, South Carolina as a result of our Royal Adhesives acquisition that is a designated site under CERCLA.

Currently we are involved in various environmental investigations, clean up activities and administrative proceedings and lawsuits. In particular, we are currently deemed a PRP in conjunction with numerous other parties, in a number of government enforcement actions associated with landfills and/or hazardous waste sites. As a PRP, we may be required to pay a share of the costs of investigation and clean up of these sites. In addition, we are engaged in environmental remediation and monitoring efforts at a number of current and former operating facilities. While uncertainties exist with respect to the amounts and timing of the ultimate environmental liabilities, based on currently available information, we have concluded that these matters, individually or in the aggregate, will not have a material adverse effect on our results of operations, financial condition or cash flow.

Other Legal Proceedings

From time to time and in the ordinary course of business, we are a party to, or a target of, lawsuits, claims, investigations and proceedings, including product liability, personal injury, contract, patent and intellectual property, environmental, health and safety, tax and employment matters. While we are unable to predict the outcome of these matters, we have concluded, based upon currently available information, that the ultimate resolution of any pending matter, individually or in the aggregate, including the asbestos litigation described in the following paragraphs, will not have a material adverse effect on our results of operations, financial condition or cash flow.

We have been named as a defendant in lawsuits in which plaintiffs have alleged injury due to products containing asbestos manufactured more than 35 years ago. The plaintiffs generally bring these lawsuits against multiple defendants and seek damages (both actual and punitive) in very large amounts. In many cases, plaintiffs are unable to demonstrate that they have suffered any compensable injuries or that the injuries suffered were the result of exposure to products manufactured by us. We are typically dismissed as a defendant in such cases without payment. If the plaintiff presents evidence indicating that compensable injury occurred as a result of exposure to our products, the case is generally settled for an amount that reflects the seriousness of the injury, the length, intensity and character of exposure to products containing asbestos, the number and solvency of other defendants in the case, and the jurisdiction in which the case has been brought.

A significant portion of the defense costs and settlements in asbestos-related litigation is paid by third parties, including indemnification pursuant to the provisions of a 1976 agreement under which we acquired a business from a third party. Currently, this third party is defending and paying settlement amounts, under a reservation of rights, in most of the asbestos cases tendered to the third party.

In addition to the indemnification arrangements with third parties, we have insurance policies that generally provide coverage for asbestos liabilities, including defense costs. Historically, insurers have paid a significant portion of our defense costs and settlements in asbestos-related litigation. However, certain of our insurers are insolvent. We have entered into cost-sharing agreements with our insurers that provide for the allocation of defense costs and settlements and judgments in asbestos-related lawsuits. These agreements require, among other things, that we fund a share of settlements and judgments allocable to years in which the responsible insurer is insolvent.

A summary of the number of and settlement amounts for asbestos-related lawsuits and claims is as follows:

	Year Ended December 2, 2023	Year Ended December 3, 2022	Year Ended November 27, 2021
Lawsuits and claims settled.....	9	7	2
Settlement amounts	\$ 4,200	\$ 296	\$ 85
Insurance payments received or expected to be received	\$ 2,379	\$ 195	\$ 55

We do not believe that it would be meaningful to disclose the aggregate number of asbestos-related lawsuits filed against us because relatively few of these lawsuits are known to involve exposure to asbestos-containing products that we manufactured. Rather, we believe it is more meaningful to disclose the number of lawsuits that are settled and result in a payment to the plaintiff. To the extent we can reasonably estimate the amount of our probable liabilities for pending asbestos-related claims, we establish a financial provision and a corresponding receivable for insurance recoveries.

Based on currently available information, we have concluded that the resolution of any pending matter, including asbestos-related litigation, individually or in the aggregate, will not have a material adverse effect on our results of operations, financial condition or cash flow.

Note 15: Segments

We are required to report segment information in the same way that we internally organize our business for assessing performance and making decisions regarding allocation of resources. Revenue and operating income of each of our segments are regularly reviewed by our chief operating decision maker to make decisions about resources to be allocated to the segments and assess their performance. Segment operating income is identified as gross profit less SG&A expenses. Corporate expenses, other than those included in Corporate Unallocated, are allocated to each operating segment. Consistent with our internal management reporting, Corporate Unallocated amounts include business acquisition and integration costs, organizational restructuring charges and project costs associated with our implementation of Project ONE. Corporate assets are not allocated to the operating segments. Inter-segment revenues are recorded at cost plus a markup for administrative costs.

We have three reportable segments: Hygiene, Health and Consumable Adhesives, Engineering Adhesives and Construction Adhesives. The business components within each operating segment are managed to maximize the results of the overall operating segment rather than the results of any individual business component of the operating segment. Results of individual components of each operating segment are subject to numerous allocations of segment-wide costs that may or may not have been focused on that particular component for a particular reporting period. The costs for these allocated resources are not tracked on a “where-used” basis as financial performance is assessed at the total operating segment level.

Reportable operating segment financial information for all periods presented is as follows:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Net revenue			
Hygiene, Health and Consumable Adhesives.....	\$ 1,601,487	\$ 1,695,934	\$ 1,472,756
Engineering Adhesives.....	1,428,744	1,532,639	1,371,756
Construction Adhesives.....	480,703	520,610	433,519
Total	<u>\$ 3,510,934</u>	<u>\$ 3,749,183</u>	<u>\$ 3,278,031</u>
Segment operating income (loss)			
Hygiene, Health and Consumable Adhesives.....	\$ 215,088	\$ 165,786	\$ 138,366
Engineering Adhesives.....	187,346	168,873	135,913
Construction Adhesives.....	5,961	22,989	14,148
Total segment.....	408,395	357,648	288,427
Corporate Unallocated ¹	(53,258)	(34,930)	(35,815)
Total	<u>\$ 355,137</u>	<u>\$ 322,718</u>	<u>\$ 252,612</u>
Depreciation and amortization			
Hygiene, Health and Consumable Adhesives.....	\$ 53,398	\$ 46,374	\$ 45,919
Engineering Adhesives.....	63,143	58,307	61,082
Construction Adhesives.....	41,915	41,713	35,002
Corporate Unallocated ¹	1,384	582	1,171
Total	<u>\$ 159,840</u>	<u>\$ 146,976</u>	<u>\$ 143,174</u>
Total assets ²			
Hygiene, Health and Consumable Adhesives.....	\$ 1,661,122	\$ 1,488,277	
Engineering Adhesives.....	1,627,715	1,610,015	
Construction Adhesives	990,296	987,610	
Corporate	444,442	377,727	
Total.....	<u>\$ 4,723,575</u>	<u>\$ 4,463,629</u>	
Capital expenditures			
Hygiene, Health and Consumable Adhesives.....	\$ 67,933	\$ 110,877	
Engineering Adhesives.....	14,888	(2,302)	
Construction Adhesives	4,540	(5,772)	
Corporate	31,776	27,161	
Total.....	<u>\$ 119,137</u>	<u>\$ 129,964</u>	

¹ Consistent with our internal management reporting, Corporate Unallocated amounts in the tables above include net revenue and charges that are not allocated to the Company’s reportable segments.

² Segment assets include primarily inventory, accounts receivable, property, plant and equipment, goodwill, intangible assets and other miscellaneous assets. Corporate assets include primarily corporate property, plant and equipment, deferred tax assets, certain investments and other assets.

Reconciliation of segment operating income to income before income taxes and income from equity method investments:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Segment operating income.....	\$ 355,137	\$ 322,718	\$ 252,612
Other income, net.....	9,682	12,952	32,855
Interest expense.....	(134,602)	(91,521)	(78,092)
Interest income.....	3,943	7,779	9,476
Income before income taxes and income from equity method investments ...	<u>\$ 234,160</u>	<u>\$ 251,928</u>	<u>\$ 216,851</u>

Financial information about geographic areas

	<u>Net Revenue</u>		
	<u>2023</u>	<u>2022</u>	<u>2021</u>
United States	\$ 1,551,846	\$ 1,692,903	\$ 1,421,623
China.....	430,948	462,587	433,998
Germany.....	393,029	419,141	409,193
Countries with more than 10 percent of total	<u>2,375,823</u>	<u>2,574,631</u>	<u>2,264,814</u>
All other countries with less than 10 percent of total	1,135,111	1,174,552	1,013,217
Total	<u>\$ 3,510,934</u>	<u>\$ 3,749,183</u>	<u>\$ 3,278,031</u>

	<u>Property, Plant and Equipment, net</u>		
	<u>2023</u>	<u>2022</u>	<u>2021</u>
United States	\$ 425,765	\$ 375,353	\$ 331,864
Germany.....	114,266	107,903	120,548
China.....	110,061	101,563	96,300
All other countries with less than 10 percent of total	174,563	148,848	146,655
Total	<u>\$ 824,655</u>	<u>\$ 733,667</u>	<u>\$ 695,367</u>

We view the following disaggregation of net revenue by geographic region as useful to understanding the composition of revenue recognized during the respective reporting periods:

	<u>December 2, 2023</u>				
	<u>Hygiene, Health and Consumable Adhesives</u>	<u>Engineering Adhesives</u>	<u>Construction Adhesives</u>	<u>Corporate Unallocated</u>	<u>Total</u>
Americas	\$ 919,024	\$ 577,751	\$ 363,517	\$ -	\$ 1,860,292
EIMEA.....	476,397	460,327	85,738	-	1,022,462
Asia Pacific	206,066	390,666	31,448	-	628,180
	<u>\$ 1,601,487</u>	<u>\$ 1,428,744</u>	<u>\$ 480,703</u>	<u>\$ -</u>	<u>\$ 3,510,934</u>

	<u>December 3, 2022</u>				
	<u>Hygiene, Health and Consumable Adhesives</u>	<u>Engineering Adhesives</u>	<u>Construction Adhesives</u>	<u>Corporate Unallocated</u>	<u>Total</u>
Americas	\$ 1,003,179	\$ 630,484	\$ 411,951	\$ -	\$ 2,045,614
EIMEA.....	471,299	478,573	78,773	-	1,028,645
Asia Pacific	221,456	423,582	29,886	-	674,924
	<u>\$ 1,695,934</u>	<u>\$ 1,532,639</u>	<u>\$ 520,610</u>	<u>\$ -</u>	<u>\$ 3,749,183</u>

November 27, 2021

	Hygiene, Health and Consumable Adhesives	Engineering Adhesives	Construction Adhesives	Corporate Unallocated	Total
Americas	\$ 826,172	\$ 504,626	\$ 384,576	\$ -	\$ 1,715,374
EIMEA	425,324	470,466	22,156	-	917,946
Asia Pacific	221,260	396,664	26,787	-	644,711
	<u>\$ 1,472,756</u>	<u>\$ 1,371,756</u>	<u>\$ 433,519</u>	<u>\$ -</u>	<u>\$ 3,278,031</u>

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

As of the end of the period covered by this report, management conducted an evaluation, under the supervision and with the participation of our President and Chief Executive Officer and Executive Vice President, Chief Financial Officer, of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (“Exchange Act”). Based on its evaluation, our management concluded that, as of December 2, 2023, our disclosure controls and procedures were effective (1) to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms and (2) to ensure that information require to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to us, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance of achieving their control objectives.

Our management assessed the effectiveness of our internal control over financial reporting as of December 2, 2023. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control – Integrated Framework (2013 Framework)*. Based on its assessment, management concluded that, as of December 2, 2023, the Company’s internal control over financial reporting was effective. Ernst and Young LLP, an independent registered public accounting firm, has issued an attestation report on our internal control over financial reporting as of December 2, 2023, which is included elsewhere in this Form 10-K.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during our most recently completed fiscal quarter that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

Item 9B. Other Information

Rule 10b5-1 Plan Adoptions and Modifications

None.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information under the headings “Proposal 1 - Election of Directors”, “Delinquent Section 16(a) Reports” and “Corporate Governance - Audit Committee” contained in the company's Proxy Statement for the Annual Meeting of Shareholders to be held on April 11, 2024 (the “2024 Proxy Statement”) is incorporated herein by reference.

The information contained at the end of Item 1. hereof under the heading “Information About Our Executive Officers” is incorporated herein by reference.

Since the date of our 2023 Proxy Statement, there have been no material changes to the procedures by which shareholders may recommend nominees to our Board of Directors.

The company has a code of business conduct applicable to all of its directors and employees, including its principal executive officer, principal financial officer, principal accounting officer, controller and other employees performing similar functions. A copy of the code of business conduct is available under the Investor Relations section of the company’s website at www.hbfuller.com. The company intends to disclose on its website information with respect to any amendment to or waiver from a provision of its code of business conduct that applies to its principal executive officer, principal financial officer, principal accounting officer, controller and other employees performing similar functions within four business days following the date of such amendment or waiver.

Item 11. Executive Compensation

The information under the headings “Executive Compensation,” “Director Compensation” and “CEO Pay Ratio Disclosure” contained in the 2024 Proxy Statement is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information under the headings “Security Ownership of Certain Beneficial Owners and Management” and “Equity Compensation Plan Information” contained in the 2024 Proxy Statement is incorporated herein by reference.

Equity Compensation Plan Information

Period	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders.....	5,470,575	\$ 53.27	3,413,652
Equity compensation plans not approved by security holders.....	-	N/A	-
Total	5,470,575	\$ 47.77	3,413,652

¹ Consists of outstanding stock options to acquire 4,941,885 shares of common stock, 283,714 outstanding time-based restricted stock units and 244,976 outstanding performance-based restricted stock units granted under the Company's equity compensation plans.

² Consists of the weighted average exercise price of stock options granted under the Company's equity compensation plans.

³ Number of shares of common stock remaining available for future issuance under the Second Amended and Restated H.B. Fuller Company 2020 Master Incentive Plan.

Item 13. Certain Relationships and Related Transactions and Director Independence

The information under the headings “Certain Relationships and Related Transactions” and “Corporate Governance - Director Independence” contained in the 2024 Proxy Statement is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information under the heading “Fees Paid to Independent Registered Public Accounting Firm” contained in the 2024 Proxy Statement is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Documents filed as part of this report:

1. Consolidated Financial Statements

Consolidated Statements of Income for the fiscal years ended December 2, 2023, December 3, 2022, and November 27, 2021.

Consolidated Statements of Comprehensive Income for the fiscal years ended December 2, 2023, December 3, 2022, and November 27, 2021.

Consolidated Balance Sheets as of December 2, 2023 and December 3, 2022.

Consolidated Statements of Total Equity for the fiscal years ended December 2, 2023, December 3, 2022, and November 27, 2021.

Consolidated Statements of Cash Flows for the fiscal years ended December 2, 2023, December 3, 2022, and November 27, 2021.

Notes to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm (PCAOB ID: 42)

2. Financial Statement Schedules

All financial statement schedules are omitted as the required information is inapplicable or the information is presented in the consolidated financial statements or related notes.

3. Exhibits

Item	Incorporation by Reference
3.1 Restated Articles of Incorporation of H.B. Fuller Company, as amended	Exhibit 3.1 to the Quarterly Report on Form 10-Q for the quarter ended September 2, 2006.
3.2 By-Laws of H.B. Fuller Company	Exhibit 3.1 to the Current Report on Form 8-K dated December 2, 2015.
3.3 Statement of Cancellation, dated October 13, 2016	Exhibit 3.1 to the Current Report on Form 8-K dated October 12, 2016.
4.1 Form of Certificate for common stock, par value \$1.00 per share	Exhibit 4.1 to the Current Report on Form 10-Q dated March 30, 2023.
4.2 Indenture, dated February 14, 2017, between H.B. Fuller Company and U.S. Bank National Association, as Trustee	Exhibit 4.1 to the Current Report on Form 8-K dated February 9, 2017.
4.3 First Supplemental Indenture, dated February 14, 2017, between H.B. Fuller Company and U.S. Bank National Association, as Trustee, relating to the 4.0000% Notes due 2027	Exhibit 4.2 to the Current Report on Form 8-K dated February 9, 2017.
4.4 Amendment No. 1 to First Supplemental Indenture, dated February 14, 2017 between H.B. Fuller Company and U.S. Bank National Association, as Trustee, relating to the 4.0000% Notes due 2027	Exhibit 4.6 to the Current Report on Form 10-K dated January 31, 2018.
4.5 Second Supplemental Indenture, dated October 20, 2020, between H.B. Fuller Company and U.S. Bank National Association, as Trustee, relating to the 4.250% Notes due 2028	Exhibit 4.1 to the Current Report on Form 8-K dated October 20, 2020.
4.6 Form of Global Note representing the 4.000% Notes due 2027 (included in Exhibit 4.3)	Exhibit 4.2 to the Current Report on Form 8-K dated February 9, 2017.
4.7 Form of Global Note representing the 4.250% Notes due 2028 (included in Exhibit 4.5)	Exhibit 4.1 to the Current Report on Form 8-K dated October 20, 2020.
4.8 Description of Securities	Exhibit 4.8 to the Annual Report on Form 10-K dated January 24, 2020.
10.1 Second Amended and Restated Credit Agreement, dated February 15, 2023, among H.B. Fuller Company and JPMorgan Chase Bank, N.A., as administrative agent and the various other parties named thereto.	Exhibit 10.1 to the Current Report on Form 8-K dated February 21, 2023.
10.2 Amendment No. 1, dated as of August 16, 2023, to the Second Amended and Restated Credit Agreement, dated February 15, 2023, among H.B. Fuller Company and JPMorgan Chase Bank, N.A., as administrative agent and the various other parties named thereto.	Exhibit 10.1 to the Current Report on Form 10-Q dated September 28, 2023.
10.3 Amended and Restated H.B. Fuller Company Year 2000 Stock Incentive Plan	Exhibit 10.1 to the Current Report on Form 8-K dated April 5, 2006.
10.4 H.B. Fuller Company Supplemental Executive Retirement Plan II – 2008	Exhibit 10.2 to the Current Report on Form 8-K dated December 19, 2007.
10.5 First Declaration of Amendment dated December 15, 2008 to the H.B. Fuller Company Supplemental Executive Retirement Plan II - 2008	Exhibit 10.5 to the Annual Report on Form 10-K for the year ended November 29, 2008.

10.6 Second Declaration of Amendment dated May 31, 2011 to the H.B. Fuller Company Supplemental Executive Retirement Plan II - 2008	Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended May 28, 2011.
10.7 Third Declaration of Amendment dated September 30, 2021 to the H.B. Fuller Company Supplemental Executive Retirement Plan II - 2008	Exhibit 10.9 to the Annual Report on Form 10-K for the year ended November 27, 2021.
*10.8 H.B. Fuller Company Executive Benefit Trust dated October 25, 1993 between H.B. Fuller Company and U.S. Bank, National Association, as Trustee, as amended, relating to the H.B. Fuller Company Supplemental Executive Retirement Plan	Exhibit 10(k) to the Annual Report on Form 10-K for the year ended November 29, 1997.
*10.9 Amendments to H.B. Fuller Company Executive Benefit Trust, dated October 1, 1997 and March 2, 1998, between H.B. Fuller Company and First Trust National Association, as Trustee, relating to the H.B. Fuller Company Supplemental Executive Retirement Plan	Exhibit 10(k) to the Annual Report on Form 10-K405 for the year ended November 28, 1998,
*10.10 Amendment to the H.B. Fuller Company Executive Benefit Trust dated December 19, 2007	Exhibit 10.3 to the Current Report on Form 8-K dated December 19, 2007.
*10.11 Amendment to the H.B. Fuller Company Executive Benefit Trust dated March 31, 2009	Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended May 30, 2009.
*10.12 H.B. Fuller Company Key Employee Deferred Compensation Plan (2021 Restatement)	Exhibit 10.11 to the Annual Report on Form 10-K for the year ended November 27, 2021.
*10.13 Form of Change-in-Control Agreement between H.B. Fuller Company and each of its executive officers	Exhibit 10.11 to the Annual Report on Form 10-K for the year ended November 29, 2008.
*10.14 Form of Change-in-Control Agreement between H.B. Fuller Company and each of its executive officers for agreements entered into after January 24, 2019	Exhibit 10.9 to the Current Report on Form 8-K dated January 24, 2019.
*10.15 Form of Severance Agreement between H.B. Fuller Company and each of its executive officers	Exhibit 10.2 to the Quarterly Report on Form 10-Q for the quarter ended May 31, 2008.
*10.16 Form of Severance Agreement between H.B. Fuller Company and each of its executive officers hired on or after October 2023	Filed herewith.
*10.17 Form of Non-Qualified Stock Option Agreement under the Amended and Restated H.B. Fuller Company Year 2000 Stock Incentive Plan for awards made on or after January 24, 2013	Exhibit 10.1 to the Current Report on Form 8-K dated January 24, 2013.
*10.18 Form of Non-Qualified Stock Option Agreement under the H.B. Fuller Company 2013 Master Incentive Plan for awards made on or after January 23, 2014	Exhibit 10.2 to the Current Report on Form 8-K dated January 23, 2014.
*10.19 Form of Non-Qualified Stock Option Agreement under the H.B. Fuller Company 2016 Master Incentive Plan for awards made on or after April 7, 2016	Exhibit 10.1 to the Current Report on Form 8-K dated April 6, 2016.

*10.20 Form of Non-Qualified Stock Option Agreement under the H.B. Fuller Company 2016 Master Incentive Plan for awards made on or after October 20, 2017	Exhibit 10.2 to the Current Report on Form 8-K dated October 20, 2017.
*10.21 Form of Non-Qualified Stock Option Agreement under the H.B. Fuller Company 2018 Master Incentive Plan for awards made on or after April 12, 2018	Exhibit 10.1 to the Current Report on Form 8-K dated April 18, 2018.
*10.22 Form of Non-Qualified Stock Option Agreement under the H.B. Fuller Company 2018 Master Incentive Plan for awards made on or after January 24, 2019	Exhibit 10.1 to the Current Report on Form 8-K dated January 24, 2019.
*10.23 Form of Non-Qualified Stock Option Agreement under the H.B. Fuller Company 2020 Master Incentive Plan for awards made on or after April 2, 2020	Exhibit 10.1 to the Current Report on Form 8-K dated April 2, 2020.
*10.24 Form of Restricted Stock Unit Award Agreement under the H.B. Fuller Company 2020 Master Incentive Plan for awards made on or after April 2, 2020	Exhibit 10.2 to the Current Report on Form 8-K dated April 2, 2020.
*10.25 Form of Restricted Stock Unit Award Agreement for the CEO under the H.B. Fuller Company 2020 Master Incentive Plan for awards made on or after April 2, 2020	Exhibit 10.3 to the Current Report on Form 8-K dated April 2, 2020.
*10.26 Form of Performance Share Award Agreement under the H.B. Fuller Company 2020 Master Incentive Plan for awards made on or after April 2, 2020	Exhibit 10.4 to the Current Report on Form 8-K dated April 2, 2020.
*10.27 Form of Restricted Stock Unit Award Agreement for Non-Employee Directors under the H.B. Fuller Company 2020 Master Incentive Plan for awards made on or after April 2, 2020	Exhibit 10.5 to the Current Report on Form 8-K dated April 2, 2020.
*10.28 Form of Restricted Stock Unit (CEO) Award Agreement under the H.B. Fuller Company 2020 Master Incentive Plan	Exhibit 10.1 to the Current Report on Form 8-K dated January 27, 2021.
*10.29 Form of Performance-Based Non-Qualified Stock Option (CEO TSR) Award Agreement under the H.B. Fuller Company 2020 Master Incentive Plan	Exhibit 10.2 to the Current Report on Form 8-K dated January 27, 2021.
*10.30 Form of Non-Qualified Stock Option Agreement under the Amended and Restated H.B. Fuller Company 2020 Master Incentive Plan for awards made on or after January 24, 2022	Exhibit 10.1 to the Current Report on Form 10-K dated January 24, 2022.
*10.31 Form of Restricted Stock Unit Award Agreement under the Amended and Restated H.B. Fuller Company 2020 Master Incentive Plan for awards made on or after January 24, 2022	Exhibit 10.2 to the Current Report on Form 10-K dated January 24, 2022.
*10.32 Form of Performance Share Award Agreement under the Amended and Restated H.B. Fuller Company 2020 Master Incentive Plan for awards made on or after January 24, 2022	Exhibit 10.3 to the Current Report on Form 10-K dated January 24, 2022.
*10.33 Form of Restricted Stock Unit Award Agreement for Non-Employee Directors under the Amended and Restated H.B. Fuller Company 2020 Master Incentive Plan for awards made on or after April 7, 2022	Exhibit 10.1 to the Current Report on Form 10-Q dated June 23, 2022.
*10.34 Form of Non-Qualified Stock Option Agreement under the Second Amended and Restated H.B. Fuller Company 2020 Master Incentive Plan for awards made on or after April 6, 2023	Exhibit 10.2 to the Current Report on Form 10-Q dated June 29, 2023.
*10.35 Form of Restricted Stock Unit Award Agreement under the Second Amended and Restated H.B. Fuller Company 2020 Master Incentive Plan for awards made on or after April 6, 2023	Exhibit 10.3 to the Current Report on Form 10-Q dated June 29, 2023.

*10.36 Form of Performance Share Award Agreement under the Second Amended and Restated H.B. Fuller Company 2020 Master Incentive Plan for awards made on or after April 6, 2023	Exhibit 10.4 to the Current Report on Form 10-Q dated June 29, 2023.
*10.37 Form of Restricted Stock Unit Award Agreement for Non-Employee Directors under the Second Amended and Restated H.B. Fuller Company 2020 Master Incentive Plan for awards made on or after April 6, 2023	Exhibit 10.1 to the Current Report on Form 10-Q dated June 23, 2022.
*10.38 H.B. Fuller Company Defined Contribution Restoration Plan (As Amended and Restated Effective January 1, 2008)	Exhibit 10.4 to the Current Report on Form 8-K dated December 19, 2007.
*10.39 First Amendment of the H.B. Fuller Company Defined Contribution Restoration Plan (2008 Amendment and Restatement)	Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended May 31, 2008.
*10.40 Second Amendment of the H.B. Fuller Company Defined Contribution Restoration Plan (2008 Amendment and Restatement)	Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended June 1, 2019.
*10.41 Third Amendment of the H.B. Fuller Company Defined Contribution Restoration Plan	Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended March 2, 2019.
*10.42 Fourth Amendment of the H.B. Fuller Company Defined Contribution Restoration Plan (As Amended and Restated Effective January 1, 2008)	Exhibit 10.43 to the Annual Report on Form 10-K for the year ended November 28, 2020.
*10.43 Fifth Amendment to the H.B. Fuller Company Defined Contribution Restoration Plan (As Amended and Restated Effective January 1, 2008)	Exhibit 10.40 to the Annual Report on Form 10-K for the year ended November 27, 2021.
*10.44 H.B. Fuller Company Directors' Deferred Compensation Plan (2008 Amendment and Restatement)	Exhibit 10.22 to the Annual Report on Form 10-K for the year ended November 29, 2008.

*10.45 First Amendment of H.B. Fuller Company Directors' Deferred Compensation Plan (2008 Amendment and Restatement)	Exhibit 10.23 to the Annual Report on Form 10-K for the year ended November 29, 2008.
*10.46 H.B. Fuller Company 2009 Director Stock Incentive Plan	Exhibit 10.2 to the Quarterly Report on Form 10-Q for the quarter ended May 30, 2009.
*10.47 H.B. Fuller Company Management Short-Term Incentive Plan for Executive Officers	Filed herewith.
*10.48 H.B. Fuller Company 2013 Master Incentive Plan	Annex B to the H.B. Fuller Company Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on February 27, 2013.
*10.49 H.B. Fuller Company 2016 Master Incentive Plan	Annex B to the H.B. Fuller Company Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on February 24, 2016.
*10.50 H.B. Fuller Company 2018 Master Incentive Plan	Annex B to the H.B. Fuller Company Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on February 28, 2018.
*10.51 Amended and Restated H.B. Fuller Company 2020 Master Incentive Plan	Annex B to the H.B. Fuller Company Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on February 24, 2021.
*10.52 Second Amended and Restated H.B. Fuller Company 2020 Master Incentive Plan	Annex B to the H.B. Fuller Company Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on February 22, 2023.

21 List of Subsidiaries

23.1 Consent of Ernst & Young LLP

24 Power of Attorney

31.1 302 Certification – Celeste B. Mastin

31.2 302 Certification – John J. Corkrean

32.1 906 Certification – Celeste B. Mastin

32.2 906 Certification – John J. Corkrean

97.1 Executive and Key Manager Compensation Recovery Policy

Filed herewith.

101 The following materials from the H.B. Fuller Company Annual Report on Form 10-K for the fiscal year ended December 2, 2023 formatted in Inline Extensible Business Reporting Language (Inline XBRL): (i) the Consolidated Statements of Income, (ii) the Consolidated Statements of Comprehensive Income, (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Total Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to Consolidated Financial Statements.

104 Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101)

* Asterisked items are management contracts or compensatory plans or arrangements required to be filed.

(b) See Exhibit Index and Exhibits attached to this Form 10-K.

Item 16. Form 10-K Summary

None

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

H.B. FULLER COMPANY

Dated: January 24, 2024

By: /s/ Celeste B. Mastin

CELESTE B. MASTIN
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Signature

Title

/s/ Celeste B. Mastin
CELESTE B. MASTIN

President and Chief Executive Officer and Director
(Principal Executive Officer)

/s/ John J. Corkrean
JOHN J. CORKREAN

Executive Vice President, Chief Financial Officer
(Principal Financial Officer)

/s/ Robert J. Martsching
ROBERT J. MARTSCHING

Vice President, Controller
(Principal Accounting Officer)

*
DANIEL L. FLORNESS

Director

*
THOMAS W. HANDLEY

Director

*
MICHAEL J. HAPPE

Director

*
RUTH S. KIMMELSHUE

Director

*
CHARLES T. LAUBER

Director

*
LEE R. MITAU

Director

*
TERESA J. RASMUSSEN

Director

*
SRILATA A. ZAHEER

Director

* by /s/ Gregory O. Ogunsanya
GREGORY O. OGUNSANYA, Attorney in Fact

Dated: January 24, 2024

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Governance



H.B. Fuller Executive Officers, Back Row, L to R
Z. Cai, N. Weaver, G. Ogunsanya, M. Malik, H. Campe, J. East, C. Mastin, J. Corkrean, T. Jensen

Executive Officers

Celeste B. Mastin

President and Chief Executive Officer

Zhiwei Cai

Executive Vice President,
Engineering Adhesives

Heather A. Campe

Senior Vice President, International Growth

John J. Corkrean

Executive Vice President
and Chief Financial Officer

Jim J. East

Executive Vice President, Hygiene,
Health and Consumable Adhesives

Traci L. Jensen

Executive Vice President
and Chief Administrative Officer

Muhammed S. (Boz) Malik

Senior Vice President,
Global Construction Adhesives

Robert J. Martsching

Vice President and Controller

Gregory O. Ogunsanya

Senior Vice President, General Counsel
and Corporate Secretary

Nathan D. Weaver

Senior Vice President, Human
Resources, Communications & ESG

Heidi A. Weiler

Vice President, Corporate Financial Strategy

Board of Directors

Lee R. Mitau

Chair of the Board

Daniel L. Florness

President and Chief Executive Officer,
Fastenal Company

Thomas W. Handley

Senior Advisor, Cascade Asset
Management Company

Michael J. Happe

President and Chief Executive Officer,
Winnebago Industries

Ruth S. Kimmelshue

Corporate Senior Vice President, Business
Operations & Supply Chain, Cargill Inc.

Charles (Chuck) T. Lauber

Executive Vice President and Chief Financial
Officer, A. O. Smith

Celeste B. Mastin

President and Chief Executive Officer,
H.B. Fuller Company

Teresa (Terry) J. Rasmussen

President and Chief Executive Officer, Thrivent

Srilata (Sri) A. Zaheer

Elmer L. Andersen Chair in Global Corporate
Social Responsibility, Carlson School of Management

Committees

Audit

Handley (Chair)
Florness
Kimmelshue
Lauber
Rasmussen
Zaheer

Compensation

Kimmelshue (Chair)
Happe
Lauber
Mitau
Zaheer

Corporate Governance and Nominating

Mitau (Chair)
Florness
Handley
Happe
Rasmussen

Shareholder Information

Stock Information

Our stock trading symbol is FUL. H.B. Fuller common stock is listed and traded on the New York Stock Exchange (NYSE). The closing stock price on the NYSE on December 1, 2023, was \$76.89 per share. As of February 14, 2024, H.B. Fuller had 1,260 shareholders of record.

Investor Inquiries

Security analysts, portfolio managers, and representatives of financial institutions should contact:

H.B. Fuller Investor Relations
1200 Willow Lake Boulevard
Vadnais Heights, MN 55110 USA
Phone: 651-236-5030
investors@hbfuller.com

Investor Resources

Corporate news releases, H.B. Fuller's quarterly results, annual reports, SEC filings, and other investment-related information are available on our Investor Relations website at investors.hbfuller.com.

Visit us on the web:

www.hbfuller.com

Forward-Looking Statements

This Annual Report contains forward-looking statements that involve risks and uncertainties that could cause results to differ materially from expectations expressed in the forward-looking statements. Please refer to the section titled "Forward-Looking Statements and Risk Factors" in Item 7 and "Risk Factors" in Item 1A of our Annual Report on Form 10-K for a discussion of these risks and uncertainties.



2023

GLOBAL OPERATIONS

135+ years of history

7,000+ employees

\$3.5 billion in revenue

16,000+ customers

80+ manufacturing sites

35+ Technology Innovation Centers

578 patents

140+ countries with sales

30+ market segments

20,000+ adhesive solutions



H.B. Fuller Company
1200 Willow Lake Boulevard
Vadnais Heights, MN 55110 USA